

Making sense of health corruption in times of COVID-19

Roberta Muramatsu¹
Paulo Rogério Scarano¹
Caroline Cipolla Bertan²

¹Mackenzie Presbyterian University, São Paulo – SP, Brazil

²Federal Ministry of Transport and Digital Infrastructure, Bonn – NRW, Germany

This paper provides readers with an analytical framework to better understand the rationality of corruption and its perpetuation in the health sector during the coronavirus pandemics. To pursue the foregoing task, it embarks on integrating insights from New Institutional Economics, Public Choice Theory, and the Austrian School of Economics to come up with an explanation of corrupt deals that uncover their causally relevant mechanisms. Its goal is to shed light on corruption risks that emerge from changes in legislation that weakened public procurement rules and therefore turned the Brazilian health system more vulnerable to corrupt acts. The article conjectures that increased uncertainty, asymmetric information, and decreased transparency channels have played major roles in triggering corrupt practices, such as bribery, kickback, embezzlement, influence peddling, and cronyism. More precisely, it argues that rent-seeking and predatory political entrepreneurship are two driving forces behind Brazilian corrupt exchanges and their risks in times of the COVID-19 pandemic. It offers some evidence that corruption scandals in Rio de Janeiro state make a very good case for showing the explanatory value of the proposed theoretical approach. It closes by wrapping up the overall argument, presenting some policy implications and questions for further research.

Keywords: corruption, health, institutions, rent-seeking, political entrepreneurship

DOI: <https://doi.org/10.21874/rsp.v72.ia.5715>

ISSN: 0034-9240 | E-ISSN: 2357-8017

Submitted: May 30, 2021. Accepted: June 7, 2021.

[Original version]



Entendendo a corrupção na saúde em tempos de COVID-19

Este artigo oferece um arcabouço analítico para compreender a racionalidade da corrupção e sua perpetuação no setor de saúde em tempos de pandemia. Para tanto, propõe a integração das perspectivas teóricas da Nova Economia Institucional, Teoria da Escolha Pública e Escola Austríaca de Economia, de modo a proporcionar uma explicação sobre os mecanismos causalmente relevantes relacionados ao fenômeno da corrupção no setor de saúde. Seu objetivo é lançar luz sobre os riscos de corrupção que emergem das mudanças na legislação que regulamentaram o Regime Diferenciado de Contratação Pública durante o estado de calamidade resultante da pandemia. Tal legislação enfraqueceu as regras para licitação e compras públicas, tornando o sistema de saúde brasileiro mais vulnerável à corrupção. A conjectura deste artigo é que o aumento da incerteza, a assimetria de informações e a redução da transparência desempenharam papéis importantes no desencadeamento de práticas corruptas, como suborno, propina, desvio de recursos, tráfico de influência e clientelismo. Mais precisamente, argumenta-se que o *rent-seeking* e o empreendedorismo político predatório são as duas forças motrizes por trás dos escândalos de corrupção observados em tempos de pandemia de COVID-19. Ele oferece evidências de que os escândalos de corrupção no estado do Rio de Janeiro representam um ótimo caso para ilustrar o valor explanatório da abordagem teórica proposta. Por fim, o artigo sintetiza o argumento geral, apresenta algumas implicações políticas e questões para pesquisa futura.

Palavras-chave: corrupção, saúde, instituições, *rent-seeking*, empreendedorismo político

Entendiendo la corrupción en el sector de salud en tiempos de COVID-19

Este artículo proporciona un marco analítico para comprender mejor la racionalidad de la corrupción y su perpetuación en el sector de la salud durante las pandemias de coronavirus. Para continuar con la tarea anterior, se embarca en la integración de conocimientos de la Nueva Economía Institucional, la Teoría de la Elección Pública y la Escuela Austríaca de Economía a fin de llegar a una explicación de los acuerdos corruptos que revelen sus mecanismos causalmente relevantes. Su objetivo es arrojar luz sobre los peligros de la corrupción que surgen de los cambios en la legislación que reguló el régimen de contratación pública diferenciada durante el estado de calamidad pública resultante de la pandemia, que debilitó las reglas de contratación pública y, por lo tanto, hizo más vulnerable al sistema de salud a actos de corrupción. La conjetura de este artículo es que el aumento de la incertidumbre, la información asimétrica y la disminución de los canales de transparencia han desempeñado un papel importante en el desencadenamiento de prácticas corruptas, como el soborno, la malversación de fondos, el tráfico de influencias y el clientelismo. Más precisamente, argumenta que el *rent-seeking* y el emprendimiento político depredador son dos fuerzas impulsoras detrás de los intercambios corruptos y sus riesgos en tiempos de la pandemia de COVID-19. El artículo ofrece evidencias de que los escándalos de corrupción en el estado de Río de Janeiro son un óptimo ejemplo para demostrar el valor explicativo del marco analítico propuesto. Finalmente, el artículo sintetiza el argumento general, presenta algunas implicaciones políticas y cuestiones para futuras investigaciones.

Palabras clave: corrupción, salud, instituciones, *rent-seeking*, emprendimiento político.

Introduction

In many countries around the world, corruption in the health sector is a pervasive phenomenon. According to Transparency International, the global spending on health services amounts to more than US\$7.5 trillion, and about 7% of this is lost to corruption (BRUCKNER, 2019). By promoting allocative distortions resulting from resource transfers to foster fraudulent practices and mismanagement of public resources, corruption kills. More fundamentally, it threatens the efficiency and fairness of health services. As a result, corruption can be even more lethal than a virus that spreads out and leaves many victims (HUSSMANN, 2011).

The outbreak of COVID-19 was classified as a pandemic by the World Health Organization in March 2020. Since then, all countries have been urged to deal with various complex problems that follow the so-called coronavirus crisis. In response to the urgent needs to purchase medical supplies, drugs, and hospital facilities for an increasing number of infected patients, Brazil, among other countries, has opted for emergency procedures that weakened rules of procurement and constrained its channels of transparency and accountability. More specifically, the Brazilian government approved Law number 13,979/2020 (BRASIL, 2020a), which weakened public procurement rules and therefore made the Brazilian health system more vulnerable to corrupt acts.

The Brazilian Federal Police and Prosecution Office have investigated corrupt deals in the health sector during the coronavirus pandemic. There is evidence of influence peddling, overbilling, embezzlement, among other types of corruption in various states (TALENTO, SACONI, 2020). After a long impeachment trial, Rio de Janeiro governor Wilson Witzel was removed from office on April 30th of 2021 for corrupt management of the pandemic (FOLHA DE SÃO PAULO, 2021).

To be more specific, this paper aims to address the following research question: what are the contributions that an analytical framework informed by New Institutional Economics (NIE), Public Choice Theory (PCT), and the Austrian School of Economics (ASE) can make to an explanatory account of corruption in the Brazilian health sector in times of COVID-19?

It is important to stress that this inquiry focuses on corrupt exchanges that are here taken as (unintended) consequences of government interventions and/or regulations that reward rent-seeking activities and cronyism. The overall argument is built on

the following assumptions: (a) corruption involves the voluntary exchange of favors between individuals in the public and private sector; (b) interest groups aim to seek and keep economic rents through political connections; (c) public officials and politicians are entrepreneurs, who explore profit opportunities from an institutional environment with limited transparency and accountability; (d) individuals in the private as well as the public sector are driven by their self-interest; (e) the act of giving a bribe to public servants, political campaign donations among other efforts to buy economic privileges can be regarded as a manifestation of rent-seeking activity.

In a nutshell, the main aim of this essay is to provide an account of the economic rationality of systemic corruption observed in the Brazilian health sector during the COVID-19 pandemic. The remainder of the paper is structured in three sections. The first section discusses the traditional economic explanation of corruption that draws on Becker's 1968 approach to crime and the "principal-agent" model. Section 2 presents and analyzes the building blocks of three complementary theoretical perspectives (NIE, PCT, and ASE) that together allow for a mechanistic explanation of corrupt practices at the interface between public and private sectors. The third section builds up an explanatory framework that can be useful to analyze corruption in Brazil's health sector during the COVID-19 pandemic. It goes on to show some evidence from "Special Commission for COVID-19 of the Legislative Assembly of the State of Rio de Janeiro" that highlights the explanatory value of the rent-seeking and (predatory) political entrepreneurship, taken here as causally powerful mechanisms underlying corruption in the health sector. The fourth section wraps the overall argument up, presents some policy implications and questions for further research, and concludes.

The economic explanation of corruption and the principal-agent model

Accounting for corruption is not a simple task at all. Defining and measuring corrupt practices are often followed by controversies (HEYWOOD, 2018). This is partly so because corruption has a hidden nature and comes in various forms. Despite the ambiguity that characterizes the concept of corruption, this paper draws on Transparency International's definition. According to it, corruption refers fundamentally to the misuse of a public position to obtain illicit private gain.

The above portrait of corruption fits well with Gary Becker's economic explanation of crime (BECKER, 1968). The latter is premised on the conjecture that "a person commits an offense if the expected utility to him exceeds the utility he could get by using his time and other resources at other activities" (BECKER, 1968, p.176). Becker defines the utility that a person (j) can expect from committing a crime as follows:

$$EU_j = p_j U_j(Y_j - f_j) + 1 - p_j U_j Y_j$$

where U is the utility function, Y is the income from an offense (monetary plus psychic), p is the probability of conviction per offense, and f is the punishment per offense (ibid, p.177).

The foregoing perspective is in tune with the view of corruption as a crime of calculation (KLITGAARD, 1988). Corruption becomes predictable even among risk-averse individuals if its gains are large, while the probability of being caught and the severity of punishment are small (GLAESER, 1999).

Additionally, economists interested in explaining corrupt transactions appeal to the principal-agent model (DELLA PORTA, VANNUCCI, 2016, GROENENDIJK, 1997, VANNUCCI, 2012, 2015). The Principal (who can be, for example, a state governor and even the electorate) delegates her decision power to the so-called Agent (for instance, a bureaucrat or elected politician), who has the function of representing the Principal's interests. The risks of corruption arise from two factors: conflicting interests among those who establish contractual relations, and asymmetric information. Both provide incentives for the Agent's use of her concentrated power to achieve personal or her clients' goals to the detriment of the overall society. Quite similarly, Klitgaard (1988) claims that corruption equals monopoly plus discretion minus accountability. To him, corruption emerges spontaneously because an institutional environment with constrained transparency and accountability provides incentives for public officials with monopoly power to make strategic use of discretion to pursue their own or their cronies' goals.

Savedoff and Hussman (2006) go on to stress that there are at least three factors that make the health sector very sensitive to corrupt practices: uncertainty, asymmetric information, and a large number of agents with conflicting interests. To some extent, uncertainty refers to the severe knowledge problem that pervades this specific sector. Individuals cannot estimate the probability of getting sick, the severity and consequence

of a disease; when it might happen; and whether there will be an effective treatment. People also have a difficult time understanding the benefits they can obtain from specific health services because they do not know what the best treatment options are like. Furthermore, most of the time only physicians know about diagnosis and treatment protocols; pharmaceutical companies and health professionals are responsible for drug prescription rules. Patients, in turn, can hide information about their health conditions from doctors and insurance companies. Some suppliers of medical services can also make strategic use of the information they have about the risks of some treatments and supplies to patients and physicians.

The informational problem is exacerbated by the dispersed and large number of actors in the health sector, such as state regulators, consumers, suppliers of medical equipment and drugs, patients, health services providers, and payers (HUSSMANN, 2011). In other words, uncertainty and complexity that characterize the health sector provide incentives for patterns of opportunistic behavior that reward corruption. Examples of contractual deviations and opportunities for abuses of power abound – purchase of overpriced medical equipment, counterfeit or low-quality medicine, and deviation of public funds to build hospitals and health infrastructure, among others.

2. Searching for a mechanistic explanation of corruption during the pandemics

Becker's economic approach to crime, as well as the principal-agent model, are necessary, though insufficient to explain corrupt practices among private and public sector players. Such a bold claim is premised on the idea that a truly explanatory account accomplished more than describing some empirical regularities. As Julian Reiss (2013) put the issue,

A good explanation in economics will therefore ask for the detailed causal process or mechanism that is responsible for the phenomenon of interest (...) a mere regularity that connects an input and an output—no matter how stable and lawlike that regularity is—does not explain why there is a connection between input and output. To investigate a mechanism means to open the black box between input and output and to illuminate why regularities hold and outcomes happen (REISS, 2013, p. 25).

With the above in mind, the next subsections turn to discuss the building blocks of the proposed analytical theoretical framework to broaden the understanding of corruption and its risks within (and outside) the health sector.

2.1. Corruption as a symptom of institutional flaws

New Institutional Economics (NIE) is one of the basic theoretical references that guide contemporary research on corruption (LAMBSDORFF, 2007, ROSE-ACKERMAN, PALIFKA, 2016). In this sense, North (2005) emphasizes:

The institutional matrix defines the opportunity set, be that one that makes the highest pay-offs in an economy income redistribution or one that provides the highest payoffs to productive activity (...) The organizations that come into existence will reflect the pay-off structure. If the highest rate of return in an economy is to piracy we can expect that the organizations will invest in skills and knowledge that will make them better pirates (NORTH, 2005, p. 61).

NIE invites us to examine features of the institutional environment – the set of political and economic institutions - that foster (or undermine) entrepreneurship, efficient allocation of resources, and therefore positive economic performance. Extractive political and economic institutions are largely responsible for the economic failure of nations (ACEMOGLU, ROBINSON, 2012). This is so because they create incentives for rent-seeking, crony relations, and constraints on political and economic freedom. These ideas are also in tune with North's ideas that a time-consistent wealth of nations' path depends on whether the exchange and enforcement of property rights are made through the market rather than government (NORTH, 1990).

According to the new institutional standpoint, corruption is a symptom of various distortions underlying extractive institutions, which in turn reward misuse of power to achieve illegal goals (ANDERSSON, HEYWOOD, 2009).

2.2. Public Choice Theory and the ties that bind rent-seeking and corruption

Taken as a complementary approach to NIE, Public Choice Theory (PCT) draws on Adam Smith's (1776) skepticism about whether people involved with public administration are only driven by altruistic motives instead of their own interests.

The economic approach to politics gained its momentum with Tullock and Buchanan in the 1960s (HOLCOMBE, 2015). They identified and resolved puzzling issues of collective action by an analytical perspective that places the self-interest motive on center stage. According to Tullock (1976):

Voters and customers are essentially the same people. Mr. Smith buys and votes; he is the same man in the supermarket and in the voting booth. There is no strong reason to believe his behavior is radically different in the two environments. We assume that in both he will choose the product or candidate he thinks is the best bargain for him. Although it seems very modest, this indeed is a very radical – even if obvious – assumption. For decades, the bulk of political science has been based on the assumption that government aims at higher goals than individuals aim at in the market. The voter is sometimes assumed to be aiming at achieving 'the public interest', the man in the shop his 'private interest'. Is this true? Is he Jekyll and Hyde? (TULLOCK, 1976, p. 37)

By assuming that politicians pursue their own interests and voters are rationally ignorant, PCT implies the view that government interventions might not promote social welfare and correct market failures.

More specifically, PCT draws on the economic approach to behavior to understand government and political processes (TULLOCK, BRADY, SELDON., 2002). Given the rules of the democratic game, a congressman's best response is to approve laws and make policies that benefit interest groups in exchange for political support and campaign finance (MONTEIRO, 2007). Due to some specificities of the rules of majority vote in many democratic countries, politicians often make promises that they cannot keep.

The economic analysis of collective action is also built on the assumption that the electoral process deals with uncertainty and asymmetric information. Therefore, the interaction between politicians and pressure groups occurs in an environment where the parties try to take advantage of the fact that the costs of some laws and regulations are dispersed and their benefits and/or beneficiaries are concentrated.

Krueger (1974) stresses that government interventions and constraints on market competition give incentives to obtain extraordinary profits through political connections. Such activities are called rent-seeking and reveal the big efforts interest groups make to convince politicians and bureaucrats to grant them legal economic privileges, such as a tariff protection.

Lambsdorff (2002) claims that the rent-seeking theory offers a way of modeling government corruption. The latter can be regarded as a means of trading some preferential treatment with private sector groups. To him, “just like other forms of rent-seeking, corruption represents a way to escape the invisible hand of the market and influence policies to one’s own advantage” (LAMBSDORFF, 2002, p. 104). If this is so, corruption is a manifestation of rent-seeking.

Shleifer and Vishny (1993) argue that the features of the government institutions and traits of the political process are important determinants of corruption. To them, the very fact that public officials can prohibit entry of competitors and give licenses or permits to specific individuals or interest groups gives room for “the government sale by government officials of government property to attain personal gains” (SHLEIFER, VISHNY, 1993, p. 599).

Despite the various lessons that can be drawn from PCT, it is important to stress that the above economic approach to politics teaches us that rent-seeking activities evolve over time because of the guarantee by government officials and politicians that they will protect politically connected firms or interest groups from competition and creative destruction forces. In exchange for this guaranteed economic privilege, they share part of their extraordinary profits through bribes, kickbacks, and political campaign funds (ZYWICKI, 2016, p. 83).

Nevertheless, PCT has a limited scope to offer a mechanistic explanation of corruption. It endorses the neoclassical equilibrium analysis and takes the market as a static structure. As a result, it fails to describe mechanisms underlying the coordination of strategies by rent-seekers, politicians, bureaucrats, and private sector agents. To bridge this gap, this paper goes on to argue for an “explanation of government corruption by mechanism” that integrates NIE and PCT lessons about corruption and rent-seeking with Austrian School of Economics (ASE) insights.

2.3 The Austrian School of Economics: predatory political entrepreneurship as the “better half” of rent-seeking

Ikeda (2003) discusses the differences between PCT and ASE. The latter does not endorse the neoclassical economic concept of market failure. According to Austrian economists, the idea of market failure is misleading, since it assumes an overly unrealistic notion of market competition that takes the Paretian criterion as a benchmark. Therefore, ASE challenges the static nature of the market underlying PCT’s models of government behavior and political processes. DiLorenzo (1988, p. 59) argues: “Neoclassical price theory has its limitations, many of which have been investigated by Austrian economists. These limitations have implications for the study of public choice.”

According to the Austrians, individual rationality might not bring about equilibrium, neither in the market nor in the domain of politics. Hayek (1937) emphasized that it all depends on how information is acquired and whether the price signals can be used to test entrepreneurial opportunities.

If one takes the Austrian economic perspective on coordination seriously, it becomes clearer why the market metaphor fails to provide a satisfactory representation of the political domain (HOLCOMBE, 2002). Just like entrepreneurs in the market, politicians attempt to test profit opportunities. Nevertheless, political interactions and exchanges are not voluntary and impersonal. Often political entrepreneurial strategies depend on coalitions and the use of power to attain personal goals or their clients’.

Despite the tensions between PCT and ASE, we claim that their integration allows for a richer understanding of “political market coordination” through the lens of economics. To the Austrians, institutions are efficient if they somehow help people encounter their own mutually beneficial exchanges.

Since collective action involves concentrated benefits and diffuse costs, there are incentives for politicians to cooperate with pressure groups. Unlike PCT, which takes politicians’ behaviors as mere responses to the demands of interest groups, the argument is that ASE uncovers a causally relevant mechanism through which politicians test their profit opportunities resulting from the creation of a demand for their wealth transfer services.

Kirzner (1973) claims that the role of the market entrepreneur is to identify misallocations and to provide alternative courses of action that activate wealth

creation mechanisms. DiLorenzo (DILorenzo, 1988, p. 66) suggests that political entrepreneurship is, in turn, predatory since it involves the exploitation of profit opportunities for wealth destruction through rent-seeking behavior.

Quite similarly, Holcombe (2002) emphasizes that political institutions often offer profit opportunities through predation. This is because individuals with public power can take advantage of their position and transfer resources from some individuals or groups to benefit their cronies. Testing such profit opportunities associated with the coercive and clientelist exchange of property rights might depend on whether the features of the institutional matrix enable public servants to trade economic privileges with another individual (or pressure group) at the expense of everyone else.

In this case, predatory political entrepreneurship will pay off if government officials can abuse their power to transfer economic rents from the rationally ignorant voting masses to well-informed businesses. Such a phenomenon can be regarded as the ASE explanatory counterpart of rent-seeking. Both mechanisms work together to coordinate expectations and strategies by private-sector agents, public servants, and politicians.

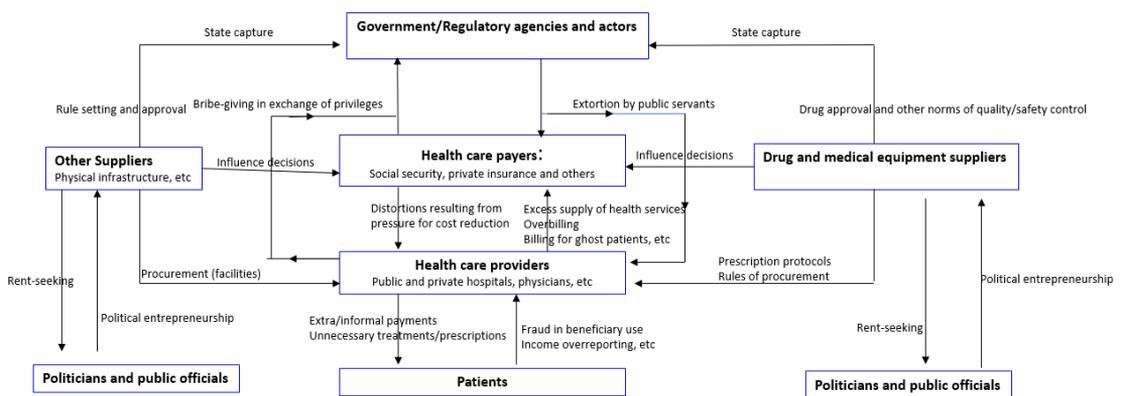
It is important to stress that political entrepreneurship often implies wealth destruction that follows resource misallocation and income transfers through political connections. Political entrepreneurship seems to play a major role in the dynamics of coordination between private and public actors under extractive institutional environments that reward corrupt deals. If this is so, an analytical framework that integrates NIE, PCT, and ASE provides an explanatory account that highlights the causal relevance of (predatory) political entrepreneurship and rent-seeking to the emergence and evolution of real-world government corruption.

3. An account of health sector corruption risks: the Rio de Janeiro case

This section draws on Vian (2008), Garcia (2019), and Hussman (2020) to propose an analytical framework for corruption in the health sector. The novelty lies in integrating insights of NIE, PCT, and the ASE to come up with an explanatory account that uncovers two causally important mechanisms underlying corrupt practices in times of the coronavirus crisis. They are rent-seeking and predatory political entrepreneurship.

As discussed earlier in this paper, the health sector has features that make it susceptible to corruption. Uncertainty, asymmetric information, and the complex network of public and private agents that constitute the intricate and segmented health sectors help explain the existence of opportunities for illicit exchanges between public and private agents. The figure below highlights the main actors of the health sector and the roles that rent-seeking and political entrepreneurship might play in the emergence and evolution of corruption.

Figure 1 - Corrupt interaction in the health sector as a theoretical framework



Source: Adapted from Savedoff & Hussmann (2006, p. 7).

The health sector is very sensitive to contract loopholes that inspire opportunistic behavior by the principal (e.g., patients) and agents (other actors within the health care network, who can make strategic use of asymmetric information to attain their own goals). Given the complexity and uncertainty of the interaction environment, public servants and politicians driven by their self-interests go on to “sell” economic privileges. On the other hand, private sector agents and organizations realize the high payoffs of rent-seeking activities. Both mechanisms help explain the collaborative dimension of corrupt deals. In addition, features of existing institutional settings reward choice strategies by patients, medical service providers, suppliers, regulators, and health financiers, who can also make the reciprocal exchange of favors an empirical regularity.

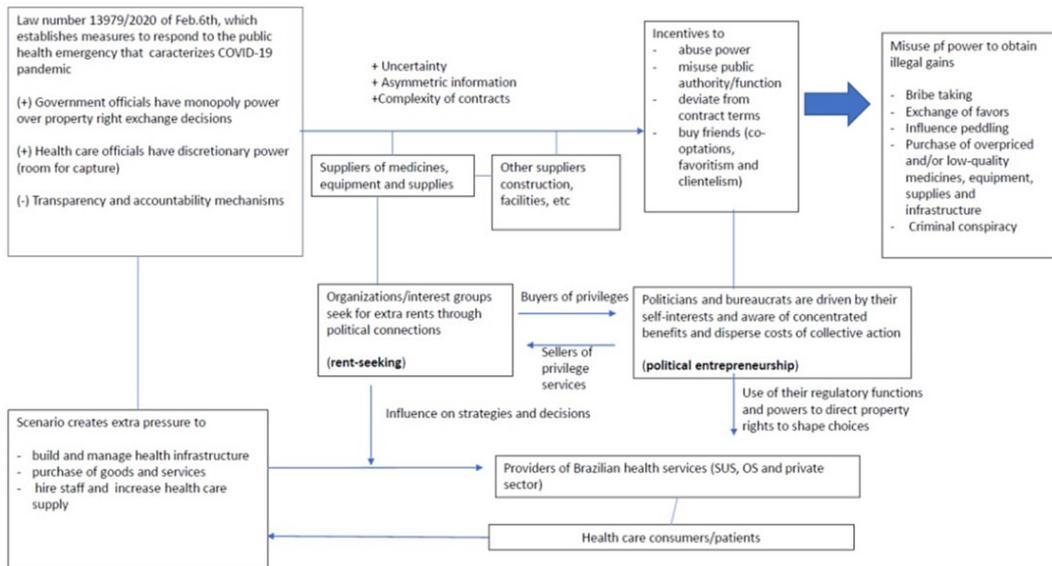
Vian (2008) highlights three major incentives sources for corruption: 1) financial pressure by public agents to divert resources for personal enrichment or requests from cronies and/or clients; 2) rationalization of corrupt behavior to justify crimes such as

conspiracy, cartel, kickback, and embezzlement; 3) opportunities for misuse of public function. Due to our commitment to a new institutionalist approach to corruption informed by PCT and ASE, we put forth an account of the pandemic-related graft schemes in the Rio de Janeiro state that focuses on incentives that reward rent-seeking activities and political entrepreneurial initiatives underlying systemic corruption.

The challenges of the COVID-19 pandemic have contributed to the exponential growth in health spending in Brazil and the world. Additional resources are necessary for the acquisition of medical and hospital equipment, medicines, and the construction of service points for infected patients. In response to that, the Brazilian government issued Law 13,979/2020 (BRASIL, 2020a), which allowed the bidding for acquiring goods and services required for managing the crisis in the public health sector in times of the coronavirus pandemic to be waived. Moreover, additional legislation expanded the list of items of the so-called “Differentiated Contracting Regime” and went on to support advance payments of public contracts and bids related to COVID-19 (BRASIL, 2020b).

The foregoing institutional design carried negative unintended consequences. Law 13,979/2020 (BRASIL, 2020a) gave extra room for corrupt practices in the Brazilian health sector, as it constrained transparency and accountability. Moreover, it increased the opportunities for the abuse (misuse) of discretionary powers by public and private-sector actors that constitute the Brazilian health sector that the figure below attempts to represent:

Figure 2 - Analytical framework to understand Brazilian health corruption during the pandemic.



Source: Authors' own elaboration

Putting it somewhat differently, Law 13,979/2020 (BRASIL, 2020a) can be regarded as a by-product of the perceived state of public emergency. The pandemic context creates extra pressure to direct funds to health care services required to treat a growing number of infected patients. The scenario of uncertainty about treatment protocols, transmission channels, lethality, and conflicting interests have created additional opportunities for public and private sector agents to abuse the trust placed in them and pursue their own goals.

Figure 2 provides a portrait of corruption risks in Brazilian health and its economic rationality that depends on the behavioral assumption that individuals within the domains of private and public sectors are driven by their self-interest. Therefore, decisions over courses of action that deviate from public integrity become predictable in institutional environments with ambiguity, uncertainty, contract loopholes, and asymmetric information. To complicate matters, since the 1990s, some government officials have had discretionary powers to grant exclusive privileges to specific companies that attain the status of "Social Health Organizations" (SHO). The latter are entitled to manage public hospitals and outpatient clinics in a way that is free from severe rules of

public procurement and the bureaucratic hiring of services and personnel (GUSMÃO FURTADO, MELO, 2011).

Despite the potential efficiency gains in Brazilian public health management that SHOs might bring, it is important to bear in mind Professor Jorge V. Monteiro's wise advice about the importance of transparency and accountability in all kinds of public-private partnerships, since they involve operational complexity, large sums of money, asymmetric information and therefore strong incentives for public actions that undermine society's best interests (MONTEIRO 2004, p. 662)

According to the suggested theoretical framework, such prerogatives signal to health care providers, drug/medical equipment suppliers, and even health care payers that rent-seeking activity and cronyism do payoff.

Politicians and public officials, who, in turn, also learn that Covid-19 somehow amplifies contract loopholes, make strategic use of their public positions to opt for overpriced contracts with companies with which they can exchange favors (through bribery, kickbacks, political nominations, and illegal political campaign funds, for instance) regardless of the effects their crony relations have on people's efficient and fair access to health services.

Our hunch is that such sophisticated dynamics of coordination between rent-seekers and predatory political entrepreneurs largely explain why corruption in health during the pandemic spreads out fast just like a highly lethal transmissible virus. This article goes on to briefly discuss some pieces of evidence of health corruption in the Rio de Janeiro state that shed some light on the explanatory value of a framework informed by NIE, PCT, and the ASE. To undertake such a task, it focuses on analyzing some patterns of corrupt deals investigated by the Special COVID-19 Committee at the Legislative Assembly of the State of Rio de Janeiro (ALERJ) that turned public in the final report "Ato 'E' / GP/Nº 40/2020" last October (ALERJ, 2020).

The aforementioned report reveals strong signs of crony relations between interest groups and politicians under the administration of Governor Witzel during the pandemic. It suggests that rent-seeking activities and political entrepreneurship walk hand in hand. According to the General Comptroller's Office of Rio de Janeiro, 99.47% of the emergency contracts of the State Health Department contain irregularities that add up to R\$ 1.7 billion (ALERJ, 2020, p. 11). The table below summarizes some of the health goods and services the Rio de Janeiro state purchased through 196 contracts inspired by Law 13,979/2020. All of them offer evidence that fraud and irregularity in health contracts have increased in times of Covid-19.

Table 1 – Health goods and services purchased on an emergency basis, based on Law 13,979/2020

Items	Main Contracts with evidence of fraud and irregularity	Contract value (in millions of reais)	(%)
Field Hospitals	IABAS	835	48,20%
Ventilators	6 companies (3 of which - ARC Fontoura; A2A Ltda; and MHS Ltda - received 99,7% of total contract value	184,2	10,6%
SAMU	Emergency contracts with company OZZ Saúde, responsible for the management and operation of SAMU.	166,6	9,6%
COVID-19 Tests	10 contracts, with 8 companies, three of which - Fast Rio, Total Med, and Medlevensohn – received 85.5% of the total contract value	132,2	7,6%
Intensive Care Units beds	3 contracts with two companies (Log Health and Fundação Educacional André Arcoverde)	111	6,4%
Medicines	42 contracts with 19 companies (the 5 of the largest - Speed, Avante, Carioca, Lexmed, and Sogamax -received more than 95% of total contract value	73,2	4,2%
Personal protective equipment and supplies	92 contracts with 72 companies (the main supplier, Carioca Medicamentos e Material Médico Ltda kept 51% of the contract value)	109,5	6,3%
Infrastructure Works	5 contracts, with 5 companies (Metalúrgica Big Farm concentrated 82% of the contract value	76,5	4,4%
Basic-needs grocery package	3 contracts with two companies (Fundação Leão XIII and Cesta de Alimentos Brasil Ltda)	25,4	1,5%
General Services	10 contracts, with 9 companies (the 3 largest of them - Central de Atendimento e Serviços Ltda, UTI Serviços Médicos Ltda and UTI Rio Serviços Médicos Ltda - received 90% of total contract value	17	1,0%
Total		1.768,4	100,0%

Source: ALERJ (2020, p. 66).

In tune with PCT's predictions of government failures, the ALERJ report offers evidence that fraud and irregularity have increased during the pandemic and highlights that crony relations between rent-seekers and public servants have abounded. There is some evidence that private-sector companies, as well as SHOs, pay bribes to attain some profitable contracts associated with field hospital construction and the purchase of several items, such as COVID-19 test kits, personal protective equipment, medicines, works, and so forth (ALERJ, 2020). One famous corruption scandal was revealed by Federal Police's Placebo and Tris in Idem operation in May 2020. It uncovered a corruption scheme in which Governor Witzel's staff received bribes to select a SHO named IABAS (Institute for Basic and Advanced Health Care), responsible for building and management of field hospitals during the Covid-19 pandemic. The company won 10 contracts (amounting to R\$ 835 million) and even received an advance payment of R\$ 256 million. Yet IABAS only delivered 2 of the 7 contracted field hospitals, both with partial operations and several irregularities (ALERJ, 2020, p. 72).

In their pursuit of power, self-interested politicians exchange favors with private sector agents, who are ready to finance politicians' political campaigns. The ALERJ report shows that two major donors of governor Witzel's political campaign kept crony relations with Unir Saúde. The latter had been responsible for the management of UPAS (first aid health units) in the 2018-2019 period. Unir Saúde lost its credential as a Social Health Organization (SHO) due to contract irregularity and low-quality service. The State Court of Auditors found 52 irregularities in the management of UPAS by Unir Saúde. However, when the special public procurement regime was enacted, governor Witzel misused his discretionary power to preserve Unir Saúde's SHO status. The following passages of the ALERJ Report provide textual evidence of suspicious clientelistic relations:

So, two days before the second term of the elections, on 10/26/2018, BRUNO KOPKE donated R\$ 75,000 to the campaign of WILSON WITZEL for the Rio de Janeiro Government, becoming his 4th (largest) donor. [...] It is at least suspect that WILSON WITZEL has benefited UNIR with the revocation of his disqualification, with the Director of the Institute as one of the main donors to his electoral campaign. (ALERJ, 2020, p. 451).

[...]

ANTONIO VANDERLER DE LIMA (OAB / RJ 35.211) is a close friend of Governor WILSON WITZEL and, like BRUNO JOSÉ DA COSTA KOPKE RIBEIRO, is one of the biggest campaign donors (6th) of the then-candidate to the State Government, with the amount of R\$ 40,000 made on 10/18/2018, 10 (ten) days before the second round of the elections. [...] The *Correio da Manhã* newspaper reported that ANTONIO VANDERLER DE LIMA “played an important role in the governor’s decision to rehabilitate UNIR, which is in fact one of the most delicate points of the investigation into WITZEL.” (ALERJ, 2020, p. 453).

The ASE adds to a broader understanding of the exchange of economic privileges through political connections. It presents the analytical category of political entrepreneurship. Politicians and bureaucrats remain alert to exploiting profit opportunities by misusing public functions. There is evidence that Rio state’s public servants (including two former secretaries) played the roles of predatory entrepreneurs: they agreed on a contract with IABAS that lacked transparency and objective criteria to justify the choice over another private company without frequent contract irregularity. The pandemic has offered additional incentives for political entrepreneurs (close to Governor Witzel) to obtain illicit gains by granting a privilege to IABAS. Those benefits included advance payment for health construction and administration services without specifying quality and quantity criteria. The evidence found was sufficient for the arrest of two secretaries of state (Secretary of Economic Development and Secretary of Health), for embezzlement, corruption, fraudulent adjustment of contracts, among other crimes, as reported by ALERJ’s Special Commission COVID-19:

Since the hiring of IABAS, numerous members of the WITZEL government have been arrested, including the Secretary of Health Edmar Santos, responsible for hiring Gabriell Neves, appointed as the main articulator of the corruption scheme under investigation. (ALERJ, 2020, p. 73).

Likewise, the State Prosecution Office carried out the Merchants of Chaos Operation to investigate corruption schemes related to the purchase of ventilators. The government of Rio bought overpriced ventilators from companies that had no expertise in health services. The ALERJ report found evidence of political entrepreneurship:

In the presence of evidence that there was fraud in emergency hiring, former undersecretaries of health Gabriell Neves and Gustavo Borges da Silva, among other suspects, were arrested on May 7, 2020. They were

accused of having obtained illicit gains in the emergency purchase of lung ventilators for Rio de Janeiro Covid-19 patients. (ALERJ, 2020, p. 90).

The hiring of companies to manage Rio's Mobile Health Emergency Service (SAMU) also suggested systemic corruption that also evolved because of political entrepreneurial initiatives. SAMU's contracts did not truly depend on the "differentiated regime." Before the pandemic, public procurement was on its way. Yet the reduced transparency that accompanied the coronavirus enabled the former Executive Undersecretary Gabriell Neves to use his discretionary powers to benefit company OZZ Saúde. The ALERJ report offers evidence that political entrepreneurship and corruption also walk together:

Public notice for hiring a social health organization [to manage SAMU] was ready. Yet as soon as former Executive (Under)secretary Gabriell Neves took office, he neglected the previous process and took advantage of the pandemic context that allowed for the waiving of bidding for the purchase of health services to favor OZZ Saúde (ALERJ, 2020, p. 101).

[...]

In sum, the analysis of the case of OZZ SAÚDE EIRELI reveals serious irregularities in contracting, provision of health services; there is evidence of systematic mistakes made by Rio state Health Department and OZZ Saúde; there is evidence of contract overpricing, which motivated the decision of Rio de Janeiro Court of Auditors to block payments to OZZ [...], in addition... government officials acted in bad faith, neglecting the legal requirements throughout the hiring process. (ALERJ, 2020, p. 102).

In a few words, ALERJ's corruption report provides some compelling pieces of textual evidence that highlight the explanatory value of the proposed approach to health corruption. It is important to acknowledge that health corruption scandals in Rio still deserve further investigation. Nobody should be regarded as guilty until there is a final sentence from judicial proceedings. Yet the presented evidence gives strong support to the (causal) powers political entrepreneurship and rent-seeking might play in triggering health corruption in countries like Brazil in times of COVID-19.

4. Implications and concluding remarks

This paper presents and discusses a theoretical framework that explains the driving forces behind corrupt practices in Brazil during the coronavirus crisis. In response to the increasing need of purchasing health goods and services, the Brazilian government issued Law 13979/2020, which, in turn, provided incentives for corruption by weakening the rules of procurement, transparency, and public accountability channels.

Despite the available pieces of strong evidence that contract irregularity and fraud have increased in the Rio de Janeiro state, any solid inferences drawn about the network of systemic corruption will require joint efforts by the Federal Police, Prosecution Offices, and Audit Courts to collect necessary information to guide trials, admissibility of evidence, and sentencing. If this is so, the very empirical validity of the proposed framework and new research questions about corrupt Brazilian health deals in times of Covid-19 might depend on how the judiciary will manage trials and process corruption cases. As Francesco de Sanctis puts the issue,

The role of the judiciary in addressing corruption is fundamental. However, the prosecution of grand and political corruption presents unique challenges due to the legal and factual complexity of these crimes and the risk of undue political pressure in the process (DE SANCTIS 2020, p.1)

Furthermore, there is a need to do further research on the institutional design of SHOs that are often regarded as a structural force behind deviations from public integrity and systemic corruption in the Brazilian health sector. One cannot underestimate the fact that public-private partnerships involve collaboration between civil servants and private-sector companies to improve the efficiency and fairness of health services. The idea is that cooperation can be used to finance, build, and even operate public hospitals and outpatient clinics with greater autonomy, transparency, accountability, and civil society participation (PASCHKE *et al.* 2018). Nevertheless, the regulatory basis of the collaboration between the public health system and private-sector organizations remains controversial. According to the former minister of the Brazilian Supreme Court, Celso de Mello, granting the status of a SHO to a social organization resembles the economic privileges emperors used to give to their cronies. To him, such a prerogative does not seem compatible with a modern perspective on the modern state (MELLO 2010, p.242).

The problem is that SHOs might foster political entrepreneurship and rent-seeking. Organizations with SHO status have the chance to advance cronyism since they need not follow the rigid rules of public procurement and long bidding processes. Critics of the Brazilian public health management system based on SHOs complain that it systematically deviates from the principles of isonomy and impersonality underlying modern public management. Yet, it is important to remember that SHOs are not state-owned firms. Given the contract loopholes that might emerge in the health sector because of complex public-private partnerships, the literature might benefit from new studies that embark on a careful account of how contracts have been designed and implemented over time by SHOs and whether larger autonomy and decentralization in the Brazilian health system rewards political nominations and crony relations. Inspired by the proposed analytical framework, this paper implies the policy idea that concentrating decision powers on public health officials by the Executive power will amplify the incentives for political entrepreneurship, rent-seeking, and therefore systemic corruption.

Unfortunately, corrupt practices come in various forms, and there is no silver bullet to destroy them. For that reason, the main lesson to be drawn is that regulatory and institutional reforms in the Brazilian health system are necessary to weaken corruption, since they promise to neutralize the causal powers of predatory political entrepreneurship and rent-seeking and therefore bring a bright light into the dark corners of poor governance and corruption (LAGARDE, 2018).

References

- ACEMOGLU, D., ROBINSON, J. A. **Why nations fail: The origins of power, prosperity, and poverty**. New York, Currency, 2012.
- ALERJ. **Relatório Final - Comissão Especial COVID-19 - Ato “E”/GP.** , nº 40/2020. Rio de Janeiro, Assembleia Legislativa do Estado do Rio de Janeiro, 2020. Available in https://politica.estadao.com.br/blogs/fausto-macedo/wp-content/uploads/sites/41/2020/10/relatoriocomissaoCovid19exos_061020204149.pdf. Accessed on May 18th, 2021.
- ANDERSSON, S., HEYWOOD, P. M. "The politics of perception: use and abuse of Transparency International's approach to measuring corruption", **Political studies**, v. 57, n. 4, p. 746–767, 2009.
- BECKER, G. S., "Crime and punishment: An economic approach". **The economic dimensions of crime**, Cambridge, MA, Springer, 1968. p. 13–68.
- BRASIL. "Lei 13979 de 06 de fevereiro de 2020". **Diário Oficial da União**, , 6 fev. 2020 a. Available in http://www.planalto.gov.br/ccivil_03/_ato2019-2022/2020/lei/13979.

htm. Accessed on May 18th, 2020.

BRASIL. 14065/2020. . "Lei 14065/2020". **Diário Oficial da União**, , 30 set. 2020 b. Available in http://www.planalto.gov.br/ccivil_03/_ato2019-2022/2020/lei/L14065.htm. Accessed on May 18th, 2020.

BRUCKNER, T. **The ignored pandemic: how corruption in healthcare service delivery threatens Universal Health Coverage**. Berlin, International Transparency, 2019.

DE SANCTIS, F. Trial monitoring of corruption cases: An innovative answer to the quest for evaluation tools. **U4 Practice Insight**, n. 1, 2020. Bergen, Norway, Chr. Michelsen Institute, 2020. Available in <https://www.u4.no/publications/trial-monitoring-of-corruption-cases-an-innovative-answer-to-the-quest-for-evaluation-tools>. Accessed on May 18th, 2021.

DELLA PORTA, D., VANNUCCI, A. **The hidden order of corruption: An institutional approach**. New York, Routledge, 2016.

DI LORENZO, T. J. "Competition and political entrepreneurship: Austrian insights into public-choice theory", **The Review of Austrian Economics**, v. 2, n. 1, p. 59–71, 1988.

FOLHA DE SÃO PAULO. "Por 10 a 0, tribunal aprova impeachment de Witzel e suspende seus diretos políticos por 5 anos". **Folha de São Paulo**, São Paulo, 1 maio 2021. Poder, p. A4 Available in <https://www1.folha.uol.com.br/poder/2021/04/tribunal-forma-maioria-pelo-impeachment-de-witzel-do-governo-do-rj.shtml>. Accessed on May 18th, 2021.

GARCÍA, P. J. "Corruption in global health: the open secret", **The Lancet**, v. 394, n. 10214, p. 2119–2124, 2019.

GLAESER, E. L. **An overview of crime and punishment**. . Washington, World Bank, 1999.

GROENENDIJK, N. "A principal-agent model of corruption", **Crime, Law and Social Change**, v. 27, n. 3, p. 207–229, 1997.

GUSMÃO FURTADO, A. L. de, MELO, P. H. P. G. de. "Organizações sociais de saúde e gestão pública baseada em resultados: a importância do controle externo dos contratos de gestão: porque os fins não justificam os meios", **Revista do TCE-PE**, v. 18, n. 18, p. 53–69, 2011.

HAYEK, F. A. V. Economics and knowledge, **Economics**, v. 4, n. 13, p. 33–54, 1937.

HEYWOOD, P. "Combating Corruption in the Twenty-First Century: New Approaches", **Daedalus**, v. 3, n. 147, p. 83–97, 2018. Available in <https://www.amacad.org/publication/combating-corruption-twenty-first-century-new-approaches>. Accessed on May 18th, 2021.

HOLCOMBE, R. G. "Political capitalism", **Cato Journal**, v. 35, n. 1 (Winter 2015), p. 41, 2015. Available in <https://www.cato.org/sites/cato.org/files/serials/files/cato-journal/2015/2/cj-v35n1-2.pdf>. Accessed on May 8th, 2020.

HOLCOMBE, R. G. "Political entrepreneurship and the democratic allocation of economic resources", **The Review of Austrian Economics**, v. 15, n. 2–3, p. 143–159, 2002.

HUSSMANN, K. **Health sector corruption: Practical recommendations for donors**. , U4 Issue., n° 10. Bergen, Norway, Chr. Michelsen Institute, 2020. Available in <https://www.u4.no/publications/health-sector-corruption.pdf>. Accessed on May 18th, 2021.

HUSSMANN, Karen. "Addressing corruption in the health sector: securing equitable access to health care for everyone", **U4 Issue**, v. 2011, n. 1, 2011.

IKEDA, S. "How compatible are public choice and Austrian political economy?", **The Review of Austrian Economics**, v. 16, n. 1, p. 63–75, 2003. Available in https://www.researchgate.net/profile/Sanford_Ikeda/

- publication/5156524_How-Compatible-Are-Public-Choice-and-Austrian-Political-Economy/links/5e0a3ea74585159aa4a6e8ee/How-Compatible-Are-Public-Choice-and-Austrian-Political-Economy.pdf. Accessed on May 8th, 2020.
- KIRZNER, I. M. **Competition and entrepreneurship**. Chicago, University of Chicago Press, 1973.
- KLITGAARD, R. **Controlling corruption**. Berkeley, University of California Press, 1988.
- KRUEGER, A. O. "The political economy of the rent-seeking society", **The American economic review**, v. 64, n. 3, p. 291–303, 1974.
- LAGARDE, C. **Iluminar os cantos escuros da má governança e da corrupção**. 2018. IMF Blog. Available in <https://www.imf.org/external/lang/portuguese/np/blog/2018/042218p.pdf>. Access on May 18th, 2021.
- LAMBSDORFF, J. G. "Corruption and rent-seeking", **Public choice**, v. 113, n. 1, p. 97–125, 2002.
- LAMBSDORFF, J. G. **The institutional economics of corruption and reform: Theory, evidence and policy**. Cambridge, Cambridge University Press, 2007.
- MELLO, C. A. B. de. **Curso de direito administrativo**. São Paulo, Malheiros, 2010.
- MONTEIRO, J. V. A conjuntura das escolhas públicas: Parcerias público-privadas. **Revista de Administração Pública**, Rio de Janeiro, v. 38, n. 4, p. 659-69, jul./ago. 2004.
- MONTEIRO, J. V. O lado escuro da escolha pública. **Revista de Administração Pública**, Rio de Janeiro, v. 41, n. 3, p. 585-96, mai./jun. 2007.
- NORTH, D. C. **Institutions, institutional change and economic performance**. Cambridge, Cambridge University Press, 1990.
- NORTH, D. C. **Understanding the process of economic change**. Princeton, NJ, Princeton University Press, 2005.
- PASCHKE, A., DIMANCESCO, D., VIAN, T., *et al.* "Increasing transparency and accountability in national pharmaceutical systems", **Bulletin of the World Health Organization**, v. 96, n. 11, p. 782, 2018.
- REISS, J. **Philosophy of economics: a contemporary introduction**. New York, Routledge, 2013.
- ROSE-ACKERMAN, S., PALIFKA, B. J. **Corruption and government: Causes, consequences, and reform**. Cambridge, Cambridge University Press, 2016.
- SAVEDOFF, W. D., HUSSMANN, K. "Why are health systems prone to corruption", **Global Corruption Report**, v. 2006, p. 4–16, 2006.
- SHLEIFER, A., VISHNY, R. W. "Corruption", **The quarterly journal of economics**, v. 108, n. 3, p. 599–617, 1993.
- SMITH, A. **An Inquiry into the Nature and Causes of the Wealth of Nations**. London, W. Strahan, and T. Cadell, 1776. v. 1. Available in: <https://dspace.gipe.ac.in/xmlui/bitstream/handle/10973/21600/GIPE-042469.pdf?sequence=3>. Accessed on May 18th, 2021
- TALENTO, Aguirre, SACONI, João Paulo. "PF investiga mais de R\$ 2 bilhões em compras suspeitas da pandemia". **O Globo**, Rio de Janeiro, 25 out. 2020. Available in: <https://oglobo.globo.com/brasil/pf-investiga-mais-de-2-bilhoes-em-compras-suspeitas-da-pandemia-24711360>. Accessed on May 18th, 2021
- TULLOCK, G. **The vote motive**. London, IEA, 1976.
- TULLOCK, G., BRADY, G. L., SELDON, A. **Government failure: a primer in public**

choice. Washington, DC, Cato Institute, 2002.

VANNUCCI, A. **The Mechanisms of corruption and anticorruption: a Neo-institutional perspective**. Vienna, Neuer Wissenschaftlicher Verlag, 2012.

VANNUCCI, A. "Three paradigms for the analysis of corruption", **Labour & law issues**, v. 1, n. 2, p. 1–31, 2015.

VIAN, T. "Review of corruption in the health

sector: theory, methods and interventions", **Health policy and planning**, v. 23, n. 2, p. 83–94, 2008.

ZYWICKI, T. "Rent-Seeking, Crony Capitalism, and the Crony Constitution", **Supreme Court Economic Review**, v. 23, n. 1, p. 77–103, 2016. Available in <https://www.journals.uchicago.edu/doi/pdfplus/10.1086/686473>. Accessed on May 8th, 2020.

Roberta Muramatsu

 <https://orcid.org/0000-0002-5286-6952>

PhD in Economics and Philosophy. Master of Economics at University of São Paulo. Bachelor of Economics, University of São Paulo. Adjunct Professor of Economics and Researcher of Mackenzie Center for Economic Freedom.

E-mail: roberta.muramatsu@mackenzie.br

Paulo Rogério Scarano

 <https://orcid.org/0000-0002-9882-2197>

Doctor of Social Science, Pontifical Catholic University of São Paulo. Master of Economics, Pontifical Catholic University of São Paulo. Bachelor of Economics, Mackenzie Presbyterian University. Assistant Professor of Economics and Researcher of Mackenzie Center for Economic Freedom.

E-mail: paulo.scarano@mackenzie.com

Caroline Cipolla Bertan

 <https://orcid.org/0000-0002-4224-3997>

Master of Economics, Federal University of São Carlos. Bachelor of Economics, Mackenzie Presbyterian University. Specialist (*Sachbearbeiter*) at the Federal Ministry of Transport and Digital Infrastructure, Germany.

E-mail: carolinecipolla@gmail.com