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# Corruption, Political Parties, and Political Protection

ALBERTO VANNUCCI

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**Vannucci: *Corruption, Political Parties, and Political Protection***

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**ROBERT SCHUMAN CENTRE  
FOR ADVANCED STUDIES**

**Corruption, Political Parties, and Political Protection**

**ALBERTO VANNUCCI**

Università di Pisa

**EUI Working Paper RSC No. 2000/62**

**BADIA FIESOLANA, SAN DOMENICO (FI)**

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European University Institute  
Badia Fiesolana  
I – 50016 San Domenico (FI)  
Italy

## Abstract

Corruption is connected with the exchange of property rights to rents created through the political process. In this perspective, behind every act of corruption lies either a modification of the structure of property rights to particular resources (imposed and guaranteed by the state) to the advantage of the corruptor, or its maintenance notwithstanding a legal obligation or a power to alter it in way unfavourable to him; by means of a hidden transaction, corruptor and corrupted share property rights to the political rent thus created. Transaction costs in corrupt exchanges are usually higher than on the legal markets. Such activities as the search for a counterpart, the negotiation of an agreement, the implementation of the agreement are extremely expansive since they involve two risks: an *external* one, such as being denounced or being discovered by control agencies; and an *internal* one, such as being cheated by the counterpart. The "rules of the game" of corruption dictate to bribers and bribees the adoption of strategies which permit them to co-ordinate their efforts at acquisition and protection of property rights on political rents. A deterrent against the potential breach of corruption contracts can then be found in alternative protective agencies. A demand of protection can emerge even in "legal" relationships with public bodies, when lack of confidence in the efficiency and impartiality of public procedures can make ineffective or not advantageous the "official" protection offered by the state to citizens which have contractual relationships with its structures or demand other 'positive rights' services. Other political subjects—as political parties—may then substitute the state in the supply of these "public goods" which, through corruption, are privatised and sold selectively to those who pay a price (i.e. a bribe) for them, corresponding to a quote of the protection rent which can be created and allocated through state's action. Those acquiring protection reduce the uncertainty involved in future transactions and relations with the state and its agents, counting on the fact that their political guarantor will intervene on their behalf should any problems arise. Such uncertainty is extremely high in both the illegal market of corruption and in contacts with a state sector characterised by inefficiency and/or lack of transparency in decision-making processes. The trust in the fulfilment of promises or the collection of credits, which is offered by political organisations like parties, permits the reduction of otherwise very high transaction costs of corruption. The protection provided by the political parties appears important in settling the controversies which can emerge between the various agents in corrupt exchange, both at central and local level. Controlling the nomination in public bodies, the parties can generalise the sanctions connected with the violation of the established rules and norms which support property rights over political rents, at the same time guaranteeing the continuity of the system over time, in a wider time-horizon which goes beyond changes in the public personnel.





## 1. Property Rights, Protection, and Corruption

Any individual who participates voluntarily in a market exchange obtains a gain equal to the difference between the value attached to the “commodity” received and that relinquished. Where the value of this surplus exceeds the transaction cost for both parts, it can be expected that the exchange will take place to their mutual satisfaction, other circumstances permitting. The same logic applies also to the exchange taking place on the market of corruption. This presents however some peculiarities. First of all, transaction costs are usually higher than on the legal markets. Such activities as the search for a counterpart, the negotiation of an agreement, the exchange of “goods”, the implementation of the agreement are extremely expansive since they involve two risks: an *external* one, such as being denounced or being discovered by control agencies; and an *internal* one, such as being cheated by the counterpart. The second characteristic is that the corrupt agent does not invest his own resources, but resources belonging to the public body he is part of. Instead of using these resources according to the rules, the corrupt agent—thanks to the malfunctioning of the control mechanism—exercise on these resources an informal property right, selling them as if they were his property<sup>1</sup>.

In general terms, “property rights of individuals over assets consist of the right, or the power, to consume, obtain income from, and alienate these assets. Obtaining income from and alienating assets require exchange; exchange is the mutual ceding of rights” (Barzel 1989, 2)<sup>2</sup>. Transactions in markets, if voluntary, advantage all the parties involved, although in different measure according to the form of the market and the related bargaining power. State activity, like market exchanges, modifies the structure of property rights in existence. Actually, as observed by Benson and Baden, “governments operate by assigning, reassigning, modifying, or attenuating property rights (...). Regulation can easily be described from a property right perspective. Governments regulate by creating and enforcing property rights and by more or less continuously modifying and changing the allocation of previously existing rights” (Benson and Baden 1985, 392). The modification of property rights imposed by state coercitive power might instead be disadvantageous, or more or less favourable for private parts, depending not only on impartial procedures, but even on the discretionary choices of public agents. Potential corruptors are interested in those public decisions which assign benefits or impose costs; in other words, those decisions which modify to their advantage the system of *property rights* to resources administered by the state—or subject to state regulation—through the activity of its bureaucrats or political representatives. The difference between the value assigned by a private to such resources and what they effectively pay (or receive) in order to acquire (or to release) property rights on them is, in economic term, a *rent*. I will call it *political rent*, since it is created though the

use of political power.

For example, both control of public spending and the right to license (permitting or not the exercise of certain private sector activities) produce *artificial* restrictions in access to public benefits and the enjoyment of private resources, thus creating politically conditions of scarcity. The state produces then opportunities for gaining such scarce property rights, which are assigned to citizens on the basis of decisions and procedures controlled by public agents. Just like market-produced resources, these represent a legitimate source of enrichment. People thus have an incentive to influence—even through corruption—to their advantage this discretionary allocation of rights on political rents<sup>3</sup>. Corruption is then connected with the *exchange of property rights to rents created through the political process*: “Corruption is actually just a black market for the property rights over which politicians and bureaucrats have allocative power. Rather than assigning right according to political power, rights are sold to the highest bidder” (Benson 1990, 159).

In this perspective:

a) behind every act of corruption lies either a modification of the structure of property rights to particular resources (imposed and guaranteed by the state) to the advantage of the corruptor, or its maintenance notwithstanding a legal obligation or a power to alter it in way unfavourable to him;

b) by means of a hidden transaction, corruptor and corrupted share property rights to the political rent thus created. The corrupted official in fact obtains a part of that rent in return for his services, which aim to guarantee (or at least increase the chances of) the granting of those property rights, usually in the form of a bribe.

Therefore, all else being equal, the greater the resources which pass through the hands of politicians or functionaries, the greater the opportunities for corruption:

the greater government interference in private matters the greater will be its use and abuse; the more the material to be exploited the more that can be generated from it ... The ruling class appropriates the property of others not only for its own use but also to give a part to those of the governed who ensure its power with both arms and cunning; with the help that a client provides a patron (Pareto 1916, 635-6)<sup>4</sup>.

However, the magnitude of public intervention is not the sole factor influencing the spread of corruption. There are cases, such as the Scandinavian countries, where large-scale public intervention in the economy and society is accompanied with low levels of corruption, according to Transparency



## International rankings.

Actually any system of public decision making can create opportunities for corruption, since it alters the structure of property rights. This can occur just as easily in a state which reduces the extent of its activities (even in one which limits itself to mere regulation or prohibition of certain behaviour) as in one which enlarges it. Rose Ackerman notes, for example, that "Corruption originates from the forms of monopolistic power created in the state apparatuses by both an excess or a lack of regulation" (1994, 67). Individuals may resort to corruption to obviate the effects of a weak state or underdeveloped market, seeking protection from politicians and functionaries whose degree of autonomy is increased by the uncertainty or absence of rules. The *collapse* of the state, or its *abandonment* of certain areas of activity may also fuel corruption through a weakening of controls and the creation of uncertainty over private property rights. The process of restoring private property in the former Soviet Union and in the other socialist-bloc countries led to numerous cases of misappropriation (Kaufmann and Siegelbaum, 1997; Mendras 1996), as did the privatisation and market deregulation processes in Western Europe or in Latin America (Manzetti and Blake, 1996; Saba and Manzetti, 1997), where the disvestiture of government owned assets created occasions for corruption involving high ranking government officials. The present section has demonstrated that opportunities for corruption arise from the various forms of public activity which create rents; these are present (although to differing degrees) in any state, whether it is *laissez-faire* or interventionist.<sup>5</sup> Moreover, while neo-liberals claim that excessive state presence is responsible for the contemporary explosion of corruption, for others deregulation and "virulent attacks on state intervention, the welfare state and the bureaucracy" have lowered the moral costs of corruption by blurring the "lines of distinction between collective and individual interest and between the public and private spheres" (Mény 1996, 315).

It is not just the *extent* of property rights in public rents which is important, but also *how* they are assigned. The more *predictable* the identity of future beneficiaries of public decisions, the greater the convenience of corruption. Thus, if an impartial procedure (drawing lots, for example) is used to assign such rights rather than a discretionary decision there will be no incentive for corruption. In addition, the more general and broadly applicable a decision, the fewer the opportunities for corruption because the cost and difficulty of collective action increases with the number of individuals who may benefit from the distribution of a rent. Each will have an incentive to free-ride, taking advantage of the corruption employed by the others (Olson, 1965). Where only a few individuals are affected, on the other hand, the use of corruption to influence political decisions becomes much easier. For these reasons, political processes tending to generalise the benefits accruing from state action represent

an effective barrier to corruption.

The transfer, capture and protection of rights is associated with transaction costs, resulting from individuals' attempt to determine what the valued attributes of any commodity are and to capture those attributes which remain poorly delineated. The definition of property rights is strictly connected with the possibility of enforcing the corresponding 'right' or claim through protective agencies. In fact: "The rights people have over assets (including themselves and other people) are not a constant; they are a function of their own direct efforts at protection, of other people's capture attempts, and of government protection" (Barzel 1989, 2). Besides self-protection and government-protection, there are forms of protection offered by other non-public agencies. This is the case, for instance, of Mafia activities described by Reuter (1983) and Gambetta (1993). According to their theoretical framework, the main and most specific activity of mafiosi is the supply of a peculiar commodity, *dispute settlement* or *private protection*. As Gambetta observes: "Mafiosi are first and foremost entrepreneurs in one particular commodity - protection - and this is what distinguishes them from simple criminals, simple entrepreneurs, or criminal entrepreneurs" (Gambetta 1993, 19). Protection must be chiefly intended as a resolution of quarrels, the defence of agreements and property rights, and sanctions on the breach of private contracts. Instead of being offered by the state as a public good, protection is sold arbitrarily and selectively by mafiosi, often helped by violent promotions. The system of property rights is then determined by the disponibility to pay of individuals. As in a modern hobbesian 'state of nature', mafiosi guarantees of criminal activities like theft can be interpreted as an affirmation of the robber's property right: "The existence of theft makes the distinction between economic and legal rights clear; it also highlights the notion that economic rights are never absolute. Thieves lack legal rights over what they steal; nevertheless, they are able to consume it and to exclude others from it, to derive income from it, and to alienate it. Each of these capabilities is an attribute of ownership. The lack of legal rights may reduce the value of these capabilities, but it does not negate them" (Barzel 1989, 110)<sup>6</sup>. These rights depend, in part, on protection efforts made by the state or by other private agencies.

trust - coop.

Mafiosi operate typically in markets and social relations where trust among individuals is fragile, or less than required by a society regulated by normal negotiation strategies. A demand for "trust" in potential partners emerge when protection is either inefficiently supplied or cannot be supplied at all by the state as a public good<sup>7</sup>. This is the case, for example, in black and illegal markets: in illegal transactions the threat of law enforcement agencies, the fear of deception, the absence of law enforcement, the uncertainty of property rights, the imperfect flow of information, all contribute to make the demand for



protection significantly higher than in ordinary competitive markets. Mafiosi provide to private individuals and to other criminals guarantees against defection from hidden agreement, obtaining a quote of the surplus of the transaction. In economic terms, we could think of a 'second level' market, in which the commodity exchanged - protection - is necessary for the success of 'first level' illegal transactions.

Producing, 'advertising' and selling private protection is interpreted by Gambetta as an economic activity, whose peculiarities reflect some characteristics of the commodity. Different resources are necessary to become an 'efficient' protection dealer. For example, it is needed a capital of *reputation*, consisting in a credible capacity of sanctioning. A good reputation in fact makes it possible to economise in the effective use of violence: "A reputation for credible protection and protection itself tend to be one and the same thing. The more robust the reputation of a protection firm, the less the need to have recourse to the resources which support that reputation" (Gambetta 1993, 44)<sup>8</sup>. Violence is not the core of mafiosi activity, but a necessary mean to offer a credible protection. As 'input' of a costly 'productive' process, violence will be economised when possible.

By its nature, the supply of protection services requires monopoly: "In highly organised societies the production of this utility, protection, is one of the functions of a special association or enterprise called government. Indeed, one of the most distinctive characteristics of governments is their attempt to create law and order by using force themselves and by controlling through various means the use of force by others. The more successful a government in monopolising all use of force between men within a particular area, the more efficient is its maintenance of law and order. Accordingly, the production of protection is a natural monopoly. The territorial extent of this monopoly is prescribed more or less loosely by military geography and historical circumstances" (Lane 1966, 384). The capacity of violence is mutually exclusive and must be showed continuously to reinforce reputation. Intimidation power is then strongly connected with the territory, as well as other essential resource as information and secrecy. Mafia structure is presumably given by a set of local monopolies of private violence, which in turn may ignore, co-operate or combat each other.

The same logic can be applied to the protection services which can be demanded by corruptors and corruptees in the market for political rents. Potential corruptors are interested in those public decisions which modify, in a way favourable to them, the system of *property rights* to resources administered by the state - or subject to state regulation. The "rules of the game" of corruption dictate to bribers and bribees the adoption of strategies which permit them to

coordinate their efforts at acquisition and protection of property rights on political rents. First, the creation, allocation and exchange of political rents and bribes is part of an illegal transaction which obviously can not be enforced through courts or equivalent public agencies. A deterrent against the potential breach of corruption contracts can then be found in alternative protective agencies. Secondly, a demand of protection can emerge even in "legal" relationships with public bodies. In fact, mistrust and lack of confidence in the efficiency and impartiality of public procedures can make ineffective or not advantageous the "official" protection offered by the state to citizens which have contractual relationships with its structures or demand other 'positive rights' services from the government. Other political subjects—as political parties—may then substitute the state in the supply of these "public goods" which, through corruption, are privatised and sold selectively to those who pay a price (i.e. a bribe) for them, corresponding to a quote of the protection rent which can be created and allocated through state's activities.

In paragraph 2 I will analyze more closely some contexts of corrupt exchanges where a demand for protective services has been observed. In paragraph 3 I will examine how in the Italian context political parties have supplied private protection, both in the illegal sphere and in the "official" relationships between entrepreneurs, citizens and the state.

## 2. THE DEMAND SIDE OF THE MARKET FOR POLITICAL PROTECTION

The probability of being denounced or buying a "lemon" in the corrupt exchange increases when its generalization makes the reliability of unknown partners more difficult to ascertain, trust is a very scarce resource, and ties among different illegal activities make the risk of exposure higher. A factor which could reduce transaction costs is the consolidation of a system of informal rules and norms regulating corrupt exchanges. Actually, in the Italian system of corruption was observed a sort of spontaneous evolution of norms dictating when, how and how much should be paid. In this paragraph I will try to show how such *quantitative* characteristics of political corruption may have an impact on its *qualitative* aspects. In other words, when levels of corruption cross a certain threshold, we can observe a more or less "spontaneous" emergence of "institutional" devices for the regulation of the increasingly complex networks of exchange.

In Italy, the markets for corrupt exchange created a structure of invisible norms more powerful than the laws of the state. The latter could be violated with impunity, while anyone who challenged the conventions of the illicit market



would meet with certain punishment. Those occupying the principal public roles moved around easily within this pervasive system of hidden exchange, legislating and directing the affairs of the state and of other public entities. At the same time, they acted as guarantors for the functioning of the illegal markets which directed every public action of any economic importance. The careers of politicians and public functionaries depended on their ability in creating networks of clandestine contacts and investing politically the proceeds of corruption. On the other side of the market, citizen and businessmen's lack of trust in the impartiality and efficiency of public action augmented the demand for purchasing favors and protection. In these circumstances, the interests of all actors involved lay in accepting the status quo, receiving or paying bribes, rather than in denouncing corruption, despite the fact that some of them might be aware of the disastrous effects of such behaviour for the collectivity.

## 2.1. The "Norms" Regulating Political Corruption

In the Italian context, the "oiling" function of informal conventions and norms has been described by ex-judge Antonio Di Pietro:

"There is an objective situation in which those who must pay no longer even wait to be asked. Knowing that in a given 'environment' one pays a bribe or protection money they too promise to pay. In the same way, those receiving the money no longer need lower themselves to require or ask for it but simply wait, since they know that it will arrive eventually anyway. In short, hints on the part of the briber and threats and inducements on the part of the public official no longer take place" (Di Pietro 1991, 2).

To understand this situation it is necessary to analyse the system of *informal norms* which regulate relations between corruptor and corrupted. These norms do indeed "have a life of their own" insofar as they have not been purposely created, or if they have been are respected independently of this fact. When the "rules" of corruption become an invisible guide to behaviour the relations between the actors in hidden exchange appear to follow a prepared script, reducing to a minimum uncertainty and tension. Mario Chiesa, the first victim of the *mani pulite* investigations, described the tranquil and unembarrassed atmosphere in which bribes circulated, even on the *first occasion* he consigned money to Carlo Tognoli, his political patron: "I handed him the envelope of money, casually, like offering a friend a coffee. He thanked me without asking anything. He knew there was money in the envelope but did not ask where it came from, which tender produced it or the percentage of the payoff. Bribery has its etiquette. You accept and say thank you without displaying curiosity" (Andreoli 1993, 61-2). There are no negotiations or demands; no suspicions or worries arise. To conclude successfully the transaction with the minimum of risk it is sufficient to follow the *etiquette* of corruption.

How do the “rules of the game” in corruption emerge? In many of the cases described by protagonists in the *mani pulite* investigations a process of progressive and reproduced adhesion to prevailing models of behaviour can be observed. To borrow an expression from Hayek, this can be considered an example of the “spontaneous evolution of rules of behaviour”. By obeying the illegal conventions corruptors and corrupted obtain a desirable, but not intentionally sought, result: the *ordered* functioning of the market.<sup>9</sup> It is in everyone’s interest to follow the rules precisely because the others have done so in the past and can be expected to do so in the future.<sup>10</sup> As one entrepreneur described it, the evolution of the rules is the fruit of the *actions* but not the *intentions* of those involved in the corruption market:

We found ourselves in a perverse situation, overrun by events; the situation became insupportable. How did it start? It’s not that one day someone said ‘Well, now we should ...’ Things evolved a little at a time and ended up in a situation like the one that has exploded ... There has been an enormous evolution in the last ten years, I would say (*Un giorno in Pretura*, RAI 3, 22/2/1993).

According to Maurizio Prada, Cristian Democrat bribe-cashier in Milan, the system “grew by itself ... There was never any ‘mastermind’” (PM, 25).

The existence of informal norms eases the entry of new actors into the market. In most cases there is little alternative to obedience for the newcomer who becomes aware of them, efforts at persuasion or intimidation thus being unnecessary. Spontaneous adaptation to the rules in force also allows a saving to be made on the costs of gathering information (Ullmann-Marglitt 1977, 86; Good 1989, 51). The “cashier” of the Milanese PLI (*Partito Liberale Italiano*), Giacomo Properzj, described this process:

“I became President of the AEM in May 1987 and remained so until autumn 1990. As soon as I took on the position I was approached by Fiorentino Enrico who told me that there was a group of firms ... who normally contributed sums of money for the party system. I say this to make clear that the system of cash payments preceded my taking the post and I confined myself to the acceptance of what, according to Fiorentino, was an established practice” (CD, n. 231, 22/3/1993, 5).

When this norm has been consolidated bribes are paid principally because everyone takes it for granted that this will happen. One administrator, of the firm ICOMEC, claimed that “in the long term, payment is not connected to a specific cause, tending to become a kind of custom in relations with that public organisation. This is demonstrated by the fact that in many cases payments continue even when the functionary changes, regardless of the physical person” (TRIM, 62). In this way the *identification* and *transaction* costs of hidden exchange are drastically reduced.



Where corruption is systemic bribery not only extends to every state activity, but precise rates of payment tend to emerge, reducing the risk of endless negotiation between corruptor and corrupted. In fact, in corrupt exchange the amount to be paid for the illegal services received, their *price*, must be fixed. When corrupt exchanges take place with a certain frequency, then once a “price” has been fixed in some way—either by agreement, *diktat* or the application of a “tariff” valid in another context—those involved may tacitly agree to replicate it in the future or can attempt to attain better conditions. When a common conviction arises that a given “price” is known and agreed then what amounts to a rule, the *X per cent rule*, may emerge. In fact, where the probability of obtaining a more favourable price is outweighed by the risks and costs of re-negotiation, the tacit repetition of the previously agreed price is the most convenient solution.<sup>11</sup> Precise tariffs applied to different kinds of services have been revealed. According to a Milanese businessman “the tariffs paid to the parties were fixed: 5 per cent on building contracts, 10 per cent on cleaning services and 15 per cent on maintenance and refurbishment” (*La Repubblica*, 1/5/1992, 5).

## 2.2. The market for political protection

Sometimes the informal norms above described are self-sustaining, that is, it is in the interest of all corrupt actors to comply with them. When this does not happen, the “order” of the market for corruption could collapse into an hobbesian “state of nature” characterized by sequence of risky disputes, rows, mutual accusations, “lemons”. Political guarantors have the power to prevent or settle disputes arising with regard to both legal and illegal activities: bribes unpaid, services promised but not performed, the non-fulfilment of contracts or inadequate protection of rights through state inefficiency. Those acquiring protection reduce the uncertainty involved in future transactions and relations with the state and its agents, counting on the fact that *someone* - a political guarantor - will intervene on their behalf should any problems arise. Such uncertainty is extremely high in both the illegal market of corruption and in contacts with a state sector characterised by inefficiency and/or lack of transparency in decision-making processes.

Since its nature is sometimes impalpable—when “everything runs smoothly” the price paid for protection may seem useless, but that is precisely the reason why that price was paid: to make things run smoothly—there is a certain degree of ambiguity between genuine protection and extortion. This is confirmed by the contrasting tones of the way the word “protection” sounds:

"One is comforting, the other ominous. With one tone, 'protection' calls up images of the shelter against danger provided by a powerful friend, a large insurance policy, a sturdy roof. With the other, it evokes a racket in which a strong man forces merchants to pay tribute in order to avoid damage (...). Which image the word 'protection' brings in mind depends mainly on our assessment of the reality and externality of the threat. Someone who produces both the danger and, at a price, the shield against it is a racketeer. Someone who provides a needed shield but has a little control over the danger's appearance qualifies as a legitimate protector, especially if his price is no higher than his competitors'. Someone who supplies reliable, low-priced shielding both from local racketeers and from outside marauders make the best offer of all" (Tilly 1985, 170-1).

There are, however, different attributes of protection which are supplied and exchanged in the corruption market, referring to different bundles of "rights" over disputed political rents. Since the measurement of these levels of protection is often too costly to be entirely accurate, the potential for wealth capture—fraud or extortion—is always present for guarantors: even if protection can reduce transaction costs, providing a deterrent against defection in contractual agreements, its "production" and selling entails other kinds of transaction costs.

### 2.2.1. *The protection of corrupt exchanges*

Illegal by definition, there can be no legal recourse for settling disputes within the market of corruption. The risk of being "sold a lemon" in such a situation can become extremely high, also because the transaction is non-simultaneous in nature and one party must rely on the word of the others. Having secured their payoff politicians might fail to deliver what they promised; an entrepreneur, having won the contract, may forget to pay the bribe promised<sup>12</sup>. A case in point is the experience of Antonio Gregni, an entrepreneur seeking to persuade the Sicilian Region to buy him out of his failing enterprise: "he made payments amounting to about 350 million to a regional deputy powerful enough to be known as 'the boss'. He turned out to be a 'delinquent' who, after making 'a lot of promises', 'stole [Gregni's] money'" (CD, n. 98, 4/10/1992, 5). Neither are entrepreneurs necessarily more "honest". As one Ansaldo manager recalled: "Let's just say the money was promised to the parties but then we stalled, asking to pay in instalments ..." (*La Repubblica*, 30-31/5/1993, 15).

When the network of exchange is more complex and based on deferred payments, the risk of defection becomes higher. For instance, the firms involved in corruption may represent fertile ground for the placement of clients indicated by politicians. Luigi Bosso, managing director of the Napoletanagas, took on personnel on the basis of the importance of the politician making the request: "When I take on personnel I choose the persons indicated by all the parties with whom I have relations. For the higher level politicians, the faction chiefs of the majority parties, the general rule is to keep them happy ... in order to have their



support. They can influence those within their party who occupy administrative positions" (*La Repubblica*, 19/12/1993, 4). In this way corrupt politicians extend their influence into the private sector as well, giving rise to a triangular exchange permitting the allocation of public goods to be transformed *directly* into political support (Fig. 1).

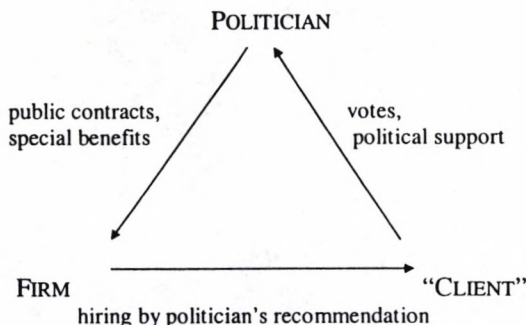


Figure 1: Influence of corrupt politicians on the private sector

The firms run the risk, however, that personnel assumed in this way will have little desire to work and their political protection will therefore be an unsustainable burden. Gabriele Serriello, a Neapolitan manager, stated: "I was obliged to hire innumerable people by the DC and PSI, all strongly recommended. They had no desire whatsoever to work and were incompetent in the majority of cases. In the end it was too much: the labour costs, for that kind of personnel, were too high ... So they asked for money and I paid it" (*La Repubblica* 16/3/1993, 8). Instead of hiring a hundred clients little disposed to work, Serriello preferred to pay 1.3 billion lire in order to obtain the 350 billion tender for the privatisation of municipal refuse collection.

Fear of being "sold a lemon" may result in otherwise profitable transactions being passed up and a demand for protection will arise. By handing a *third party* the power to sanction agreements and intervene to discipline the market both corrupted and corrupters protect themselves from any improper behaviour. Where this demand meets someone both willing and able to satisfy it, a portion of the money from the market of corruption will go to this external guarantor who, being a sort of "judge", has the power to resolve disputes and inflict sanctions to those who breach the "contracts" of corruption. In such cases the bribe split into two quotes, each having a distinct destinations and paying for a distinct service. Correspondingly, such market is organized into two levels: in

the first property rights on political rents are exchanged with bribes; in the second, a guarantee against the risks of defection is acquired by political protectors. The Milanese magistrates remarked:

"Those who demanded (or received at least) these bribes retained only a part, and that not always. More often they were also forwarded to other more powerful politicians who, regardless of whether they held public office, were or would be guarantor on those directly responsible for success in the tender and in the management of the contract, because of their influence over those who did" (CD, n. 266, 13/4/1993, 2).

To ensure that difficulties did not arise, agreements were sometimes made dependent on the presence of a guarantor. When the broker Adriano Zampini offered a bribe in exchange for the purchase of a property of his by the commune of Turin, the assessor responsible replied: "Could be interesting, but we'll have to find a guarantor ... someone who can link everybody up ... You might speak to Enzo [Biffi Gentile, the deputy mayor] about it". The Turin magistrates noted that "by the term guarantor ... Zampini means someone in a position, on the one hand, to ensure that the entrepreneur actually pays the bribe; on the other, that the public functionaries would act 'accordingly', ensuring a satisfactory outcome to the whole operation" (QGT, 362).

Disputes might arise over agreements for sharing out bribes among a number of politicians or over the sub-division of public works among a cartel of entrepreneurs, paralysing the market and increasing the risk that the magistrates' attention would be drawn. As will be seen below, these forms of protection could be supplied by a variety of political actors, as influential individuals, party factions or official party bodies or organisations, depending on the scale of activity in the "production" and selling of political rents—at local or central level —, on the frequency of the exchange, on the amount or resources involved (della Porta and Vannucci, 1999).

### **2.2.2. Protection from Other Corrupt Agents**

Even an extortionists' gang has an interest in maintaining exclusive control over their victims, preventing that others take advantage of them: "Protection is primarily against the one who offers it, but it has to include protection against rival taxing authority" (Schelling 1984, 185). A similar process occurs in the market of corruption: more powerful political agents protect their "clients" against demands for bribes from others because in doing so they can collect a greater amount with lower risk. Thus, in a context of widespread corruption *one* person may be paid simply in order to avoid paying many and paying continually. A protection against rival corrupt agents permits to avoid one of the main drawbacks of bribery within a democratic system with widespread corruption, i.e. the multiplication of bribes corresponding to the multi-level



dispersion of power in the decision-making procedure. As observed by a French fonctionnaire, former chief of the intelligence service: "Higher bribes [in international corruption] were paid to fonctionnaires of democratic industrialized countries, not of third world dictatorships. (...) Functionaries of democratic countries demand higher bribes because the money must be split up amongst a lot of people, presumably to buy the silence of many, while in dictatorships the bribe goes directly to the top, undivided" (quoted in Savona and Mezzanotte 1998, 90).

The entrepreneur Angelo Simontacchi claimed, for example, that "paying at the level of the national secretariat allowed [him] to refuse the demands of individual local politicians" (*Il Giornale*, 14/1/1993, 4).<sup>13</sup> The protection of given individuals against unexpected requests of bribes increasingly directs the attention of the less important corrupt agents to those remaining, thus heightening the desirability of a long-term protection "contract". A spontaneous demand for political protection can then emerge, being the subjection to a leading "authority" in the corruption system preferable to the persistence in an "anarchistic" equilibrium, where every public agent may ask for a bribe.<sup>14</sup> Of course, when somebody in the political-administrative context has bought an effective safeguard against widespread corruption, low-level corrupt agents tend to concentrate their attention on the remaining ones. Although this form of protection bribery may begin with the imposition of a "cut" on a certain number of reluctant victims, it can then create a chain of voluntary requests for "protective umbrellas" from those who initially remain without defense against increased demands of bribes.<sup>15</sup>

### 2.2.3. Political Protection Against State Inefficiency

The "structural" inefficiency of Italian public administration permits politicians and bureaucrats to "privatize" and sell the resources of their office in exchange for bribes. The discretionary power accompanying administrative inefficiency can be used to further the interests of aspiring corrupters: thus, corruption feeds on inefficiency. The spread of corruption is facilitated by the malfunctioning of the public administration. Corruption can sometimes be seen as a way to create "fast lane" to administrative decisions for those who are willing to pay bribes or *speed money*. For example, when long delays in carrying out certain procedures become the rule, even a functionary who limits himself to performing his job within the time foreseen by the regulations can demand a bribe in exchange for this by now unanticipated "service". As observed by a Sicilian politician: "The administrative paralysis transforms all civic rights in favors. If you need a certificate or a building permits, and if you wait for them for two years or so, eventually you ask for them and pay for them as a favor" (*La Repubblica* October 17, 1991).

Corruption, in turn, not only produces but also promotes inefficiency<sup>16</sup>. First, corruption has social costs—"The damage to the public administration caused by the necessity for entrepreneurs, drained to the profit of the accused, of making up the losses sustained from extortion and the consequent elevation of the costs, poor execution of the works, proliferation of price revisions, execution of non-contractual work and requirement for supplementary technical evaluation, has been very serious" (TRIS, 434). Moreover, if one of the objectives of functionaries is to collect bribes, they have an interest in fostering the conditions of procedural delay, viscosity and unpredictability which widen the margins for corrupt transactions: "Many files are kept opened, because this is the better way to keep all under fire", so complains a Milanese entrepreneur (Pipe 1992 54). Similarly, a Sicilian businessman recalls: "there was the frequent need to pay the politicians, ... in order to avoid to displease those who, with their influence and prestige, could eliminate the obstacles preceding and following the adjudication of public contracts" (CD n. 450 2). The unsatisfactory performance of the public administration associated with these delays and deficiencies offsets or negates the collective interest supposedly served by such norms: "The procedure becomes longer and more complicated ... Waiting time becomes more important than working time" (Cassese 1983, 284). In any case, "institutions and their functionaries are not held responsible for remaining inactive, for taking no decision at all ... It soon becomes clear that it is more dangerous to decide (a decision involving the possibility of error and punishment) than not to decide" (Freddi 1992, 226). In such a situation "time" becomes more valuable, as do the incentives to "buy" it through bribery. Finally, administrative inefficiency obstructs investigations into corruption by lending formal justification for a vast range of actions taken by corrupt functionaries before organs of control. The judges who investigated political corruption in Bari observed that: "the immunity [for corrupted politicians] derives from that involution in the bureaucratic course that insure the *post-hoc* demonstration of the claimed delays" (TRIB 267). At the same time, verification of administrative inefficiency is powerfully hampered by acts of corruption, which conceal both the real motives for and the outcomes of public decisions.

Italian corruption was probably favoured even by the expansion, particularly from the 1960s, of the functions of the state and other public agencies in regulation and control. In general, the greater the amount of property rights over political rents passing through the hands of politicians or functionaries who have a certain power of allocation over them, or who have access to restricted information concerning the criteria for their allocation, the greater (all other circumstances being equal) the opportunities for corruption<sup>17</sup>. This creates an escalation in the number of contacts between individual citizens and public entities as a result of the extended range of pertinence of laws and regulations. Associated with ineffective administrative controls, unpredictable



and inefficient procedures, lack of trust in official protective agencies as courts and administrative tribunals, it emerges a proportional increase in friction, confrontation and contention between citizens and the public apparatus. At the same time, the risk increases of normative overlaps, assimilation, partial abrogation, exceptions and contradictions needing to be resolved at judicial level. According to a Milanese entrepreneur:

"If we had to respect all the legal norms when we start an economic enterprises, we could forget about it ... According to the law, before starting any activity, you need to have all permits and authorizations under your own name. Obviously, this put the entrepreneur in a situation of direct dependency from the public officials, who can control or not control, enforce the rules or do not enforce them" (Fipe 1992, 64-5).

Legislative proliferation (and confusion) is a further factor aggravating inefficiency and increasing the power of functionaries. As another businessman put it: "Lots of laws and mini-laws simply increase the power of functionaries to blackmail entrepreneurs. Even if the latter are convinced that they are respecting the law they cannot be sure and therefore prefer to pay bribes" (Benassi and Sganga, 1994, 42). Many such norms are clearly inefficient because, through an unclear definition of individual cases, they encourages contravention or because the rules are too many and overly imprecise.

As observed above, administrative inefficiency has multiplied the occasions where citizens or businessmen have an interest in asserting their right to certain public services or resources, thus giving rise to a demand for political protection. By paying bribes to those with long-term influence over the exercise of public power, corrupters hope to prevent contentions with the state or to resolve them quickly to their advantage. When the *public and impartial* protection offered by the state's laws is uncertain or ineffective, the *private and selective* protection offered by a given centre of power may appear more convenient and effectual. The entrepreneur Fabrizio Garampelli explained the substitutability of public protection offered by an inefficient judiciary system with private protection guaranteed by private organization like parties:

"Knowing that civil law suits can go on for more than six years the Commune of Milan put an incredible weapon in the hands of public officials (political and otherwise) when, five or six years ago, it abolished the possibility of arbitration as means of resolving the situation in a matter of months. For that reason, construction companies could not evade certain demands; demands which were not, probably, specific to the one job but more general, coming from a contract which probably was not strictly linked to that particular job" ("Un giorno in pretura", RAI3 TV, 22/2/1993).

Administrators thus acquire arbitrary power which permits them to obstruct even quite legitimately anticipated decisions without running any particular risk.

Their discretionary power and informational advantages makes them able to threaten to deny (or to delay) due rights, in order to collect bribes. If private parties have sufficiently frequent contact with public institutions, therefore, it will be in their interest to find longer-term protection avoiding such "regulatory blackmail" (Mogiliansky, 1994). The entrepreneur in search of public contracts will then look for an influential political partner who will be paid on a regular basis in return for wide-ranging protection from state inefficiency. The entrepreneur Vincenzo Lodigiani noted:

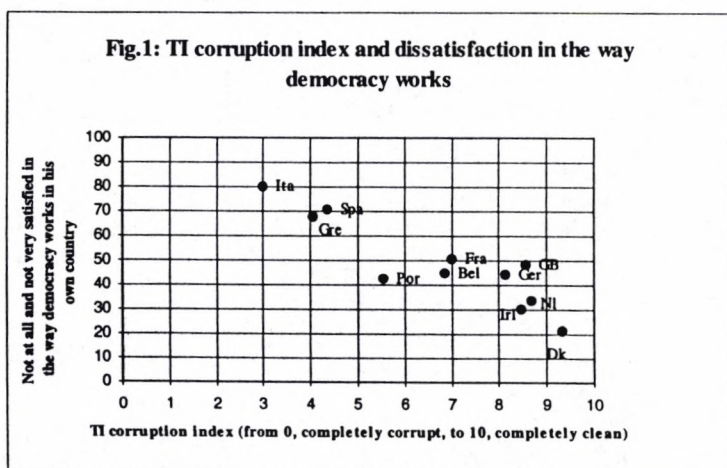
"Thousands of problems can and do arise in the awarding of contracts and supplies and all the way through the contracting process ... Enterprises are therefore under the necessity of preventing the legal representatives of public bodies, or someone acting for them inside such bodies, from making their lives difficult ... Rather than continually submit to the phenomena described above Lodigiani sought to protect itself by negotiating directly with the centre, the national secretariats of the parties" (TNM, 42).

In turn, the poor functioning of the public administration generates widespread scepticism among citizens and entrepreneurs concerning the efficiency and impartiality of the procedures which regulate access to the state; in other words, in the possibility of enjoying those rights sanctioned by the law. Corrupt politicians and bureaucrats have an interest in presenting the functioning of the public administration as inefficient and unpredictable because then they can selectively offer *protection* from such uncertainty. In exchange for bribes they are willing to guarantee speedier consideration of particular cases, favourable interpretation of the regulations, simpler procedures or a positive outcome in controversies with the public administration. Where corruption reaches those centres of power which influence the rules agents must follow, irrational and contorted procedures will multiply as the organizational structure comes to reflect the interests of those who are corrupt. In other words, the "external effect" even of apparently "beneficial" corruption is a change in the rules and practices of the public administration which leads to a greater overall inefficiency of the system. This encourages the creation of privileged channels of communication with the public administration — regarding services, contracts or jobs — in order to obtain profits, reduce waiting times or forestall other potential corruptors. The "demand" for protection which is created in these ways produces *selective inclusion* of private actors on the basis of their willingness to pay bribes. Growing corruption, in turn, creates increasing pessimism concerning the arbitrariness of administrative action. Dissatisfaction with the functioning of the public administration and the incentives to obtain protection through bribery thus increase among those initially excluded from the market of corruption. Precisely through attempts to get round it by bribery, belief in the dishonesty of public agents is destined to proliferate autonomously, by a sort of chain reaction.



A great deal of evidence has been found on the interdependence of *maladministration* and corruption. On the one hand, maladministration (sometimes resulting from inertia, sometimes from able maneuvering) increases the discretionary and arbitrary power of the administrators in each phase of the process leading to the "purchase" of public measures by bribery: from the creation of artificial demand to the contamination of the system of adjudication and the weakening of controls. On the other hand, maladministration causes a growth of mistrust in the public administration, and of pessimistic expectations concerning the effective enjoyment of rights sanctioned by law, on the part of citizens and entrepreneurs. As a result, privileged channels of access to public decisions are sought, irrespective of whether they refer to enjoyment of a service or competition for a public contracts, jobs etc. The necessity for privileged channels increases willingness to "buy" access by paying bribes, in other words, the demand for protection. Through the diffusion of corrupt practices, in fact, a selective inclusion of those who pay is realized. Corruption therefore increases inefficiency, recommencing the vicious circle.

A correlation ( $r=-0,904$ ) between perceptions of corruption and (dis)satisfaction in the functioning of the public administration in 11 European countries can be highlighted using the 1995 Transparency International index and the levels of satisfaction in the way democracy works, from the 1994 Eurobarometer trends.



In such a context, the successful conclusion of a particular case comes to depend from the *personalization* of protective relations with the public bureaucracy and the political system. This in turn promotes mistrust and dissatisfaction in the way democracy works, encouraging the creation of privileged channels of communication with the public administration—regarding services, contracts, rights, or jobs—in order to obtain property rights on political rents, reduce waiting times, or forestall other potential corrupters.

#### 2.2.4. *Political Protection from Competition*

Under normal conditions total *freedom of entry* into the market for political protection does not exist. Those who arrive too late, do not inspire trust or are simply not liked, therefore, will find themselves frozen out. Thanks to the protection they receive from competition, entrepreneurs operating in the public sector are able to obtain higher profits than they would otherwise — in other words, property rights on a *political rent*. In fact:

“In a protected market a potential dealer faces a cost of entry higher than the cost which would be strictly necessary where the market not protected. From the point of view of the new entrant, this may look like extortion. But from the point of view of those dealers already buying protection, the extra cost imposed on the new entrant is precisely one of the reasons they pay for protection in the first place: to deter new competitors” (Gambetta, 1993, 31-2).

A politician who did not select among those demanding protection would find it difficult to ensure they all received preferential treatment. Moreover, the inability to reconcile incompatible requests would increase the risk of denunciations being made by dissatisfied clients<sup>18</sup>. Thirdly, as Shleifer and Vishny emphasize, “keeping corruption secret requires keeping down the number of people involved in giving and receiving bribes” (1993, 615). Competition among bribers, on the other hand, increases the price of corruption as the following account, by an entrepreneur, makes clear<sup>19</sup>:

“I got in touch ... and said I was willing to pay a bribe ... He stated that he could not guarantee anything as there were other firms interested and I realised the offer I had made was not high enough. When I informed [another manager of the same firm] he got angry with me because I had not made a higher offer, of 5-6 per cent. He told me not to bother, he would take care of it” (TRIM, 78).

Beyond a certain point, however, for the corrupt administrator the advantages of competition tend to diminish, since there is a limit to the size of bribe that can be paid. It can be assumed, therefore, that each centre of power has a precise interest in *limiting* the number of corrupters to whom they offer protection. According to the manager of the Ligresti group, for example, the group paid seven billion to the PSI in the expectation that they “would be included in a



*small circle of entrepreneurs who had demonstrated their friendship towards the Socialist Party*" (*L'Espresso*, 6/12/1992, 60). Entry into the protection market was encouraged by the perception of important economic advantages for those who could secure their place. Nevol Querci, extraordinary commissioner of the Inadel stated: "It is true that in recent years a circumscribed group of about 20 entrepreneurs has emerged ... who, on the one hand, contributed to covering the expenses of the DC and PSI and on the other received favoured treatment where real estate was to be purchased" (TNM, 76).

If there is an effective political protection against competitors, a decision to participate in "forbidden" tenders, make a bid different to that agreed or refrain from paying one's part of a bribe - depending on the content of the collusive agreement - loses much of its attractiveness. Effective protection, therefore, may be aimed more at *preventing* challenges to the cartel than at *punishing* them. It can be expected that, where cartels are present, the firms involved correspond to the coalition of politicians guaranteeing the continuity of business in terms of their market influence and political orientation. Thus in Bari "an agreement had been reached between all the biggest firms of the city and the politicians" in relation to tenders for schools, and "a precise coupling between company X and party X had been created in order that each party was assured a bribe of 5 per cent of the gross value of the works tendered" (TRIB, 66). At times the collusive agreement between the political parties predates and causes an identical division in the economic field. Thus in relation to many public contracting procedures in the Veneto area "the agreement between the parties (DC and PSI) on the distribution of bribes came first, and afterwards the enterprises were chosen according to their importance ..., political colouring, trustworthiness for the system and recommendations from those who count" (APV, II). The market for public works was thus founded on a two-way collusion: the agreement on bribery among politicians favours collusion among participants in tendering and vice versa.<sup>20</sup>

A number of entrepreneurs—specialized in satisfying public demand—have correspondingly shown an interest in establishing long lasting relationships with centers of political power. In a similar context, the awareness or even the simple expectation that corruption is widespread and that others can take advantage of it is a strong incentive for seeking privileged links with political power. Precisely through attempts to get around it by bribery, however, belief in the dishonesty of public agents is destined to proliferate autonomously. In the first place, someone who engages successfully in bribery receives a confirmation of their pessimistic expectations. At the same time, mistrust spreads among those who do not pay the price of political protection and therefore find, for no other apparent reason, that they are discriminated against. For instance, an entrepreneur excluded from tendering for a contract with the

Italian Railways, connected this fact with the presence of a notoriously “well-connected” competitor: “We realized immediately that the cards, as you might say, had already been dealt” (PR, 85). Afterwards he redoubled his efforts to enter the restricted circle of corrupters. The alternative is the *exit* from the public sector market, but barriers to poor administration are in fact increasingly weakened by the expulsion or marginalization of those protagonists more hostile to corruption, since the risk of complaints diminishes. It also reinforces the belief that corruption is inevitable. Mario Chiesa, first “victim” of “*mani pulite*”, has claimed: “There was a feeling of impunity. It might seem incredible, but I’ve never asked for a penny from anyone in my life. Not because I was particularly decent and honest; it just wasn’t necessary. If you came to me proposing to sell me 100 million worth of equipment and I smiled you would have said: This is the sum at your disposal” (*Panorama*, 13 December 1992, 46). The attempt to bypass the inefficiency and arbitrariness of the state by purchasing individual protection is destined to fail. It spreads and consolidates the very distrust underlying it in an ever wider spiral of corruption.

As a result of high levels of corruption, we may add, a form of extortion concerns primarily entrepreneurs who do *not* pay bribes and taxpayers who are forced to finance such illegal practices. In a similar context, in fact, “honest” entrepreneurs are obliged to suffer a cost from the corruption of others, coming up against an insurmountable barrier to entering the public market, while the fiscal charge of common citizens grows in correspondence with the joined appropriation of political rents by corrupt agents and protected entrepreneurs.

### 2.3. The Price of Political Protection

Clearly the different forms of protection described above are often interwoven, both in reality and in the expectations of those paying for guarantee. Bribes paid for this more general protection rather than a specific service is, to all intents and purposes, a tax paid to political protectors, either at a fixed rate or in proportion to profits. Reflecting the nature of the service acquired, this form of payment also has the advantage of reducing the possibility of criminal proceedings, since it is harder to prove that it is in fact illegal. This fact had not escaped Bettino Craxi, former leader of PSI; according to the entrepreneur Ottavio Pisante:

De Toma [the PSI’s exactor] told me Craxi had identified about 20 major Italian firms who, if they wanted to survive in business, would have to commit themselves to making regular cash payments to the PSI, in the order of about two billion a year ... In other words, Craxi realised the penal dangers of associating levies of money with individual tenders and intended to forfeit them against annual contributions” (TNM, 83).



The sums of money paid by “contributors”, then, become a kind of “insurance policy” taken out against the difficulties and obstacles which may arise for those wanting to obtain property right on political rents or to maintain periodic relations with public bodies—a “contract” to be taken up only where required: to unblock a particular dossier, silence an over-zealous inspector or speed up a given operation. A protected entrepreneur is able to confront his political and bureaucratic interlocutors without undue worry. Having won the tender to construct a sports complex, the entrepreneur Romagnoli encountered just these kinds of difficulty and decided to seek political protection:

“Having won the contract we were forced to recognise that there were malcontents and objections ... We realised that we needed political-entrepreneurial protection to have any chance of finishing the work successfully and avoid pretexts for obstructionism and delay ... I therefore tried to identify the leading representatives of the political system ... realising that this was the only way to ensure a certain amount of tranquillity in order to see the project through. They told me that they had the power to intervene with the traditional political parties but drew my attention to the fact that these parties needed money” (TM, 142-3).

On other hand, as Vincenzo Lodigiani recalled:

“Both Citaristi and Balzamo [administrative secretaries of DC and PSI] told me, not long after the middle of the 1980s, that it was necessary to agree a contribution that Lodigiani (like all the other companies, incidentally) would pay to the DC and PSI's coffers, systematically and regularly, independent of individual tenders or orders ... In return they guaranteed, on behalf of their parties, that the necessary steps to prevent any obstructionism would be taken with those responsible for Lodigiani's orders” (TNM, 43).

This demand for protection was in fact met by specialized supplier, which used their political organization to collect bribes and protection money.

### **3. POLITICAL PARTIES AND THE MARKET FOR POLITICAL PROTECTION**

The emerging of a demand for political protection in corrupt exchanges does not imply that it will be met by a corresponding supply. What we can say is that there are “gains from trade” to be made in this market, and that money is a valuable commodity within political parties and careers. If moral or institutional constraints are not strong enough to discourage such dealings, we can expect that protective services will be provided by several specialized suppliers, as political parties, in exchange for protection money or other resources (consent, support, etc.).

Therefore, not necessarily there is extortion when bribes are paid in exchange for nothing more than the performance of a duty, without any other apparent return. In fact, bribes can be directed towards *political patrons* or *guarantors*. Those engaging in corruption may be seeking to obtain a generic protection for their entrepreneurial activities and for their exchange relations with the public administration and its corrupt agents. For example, when a supplier pays a bribe in order to avoid administrative inefficiencies and delays, there may be a voluntary, not extorsive transaction if those unfavourable conditions are not under complete control of the corrupt agent, who can nevertheless attenuate their costly consequences. Paying such bribes the entrepreneur purchases the right to continue working in a protected market which, like the public sector, offers the possibility of substantial gains.

A firm “twinning” with a centre of power generally hopes to obtain protection in its dealings with public institutions, discourage competition and protect itself from the dangers of being cheated in corrupt exchanges. According to the ex-President of the INADEL, Nevol Querci, hidden exchange sometimes takes place on a one-off basis (with immediate payment) while in other cases protection is based on a long-term “contract”: “All acquisitions were from entrepreneurs for whom the party had given me the go-ahead. In some cases the entrepreneur paid directly to the national secretariats of the parties, and afterwards I would be given the green light. In others, they paid the money directly to me” (TNM, 76). The activity of *protection-seeking* thus becomes essential for understanding the behaviour of entrepreneurs specialised in the public sector. The magistrate Piercamillo Davigo has noted that “the enterprises implicated in the system of corruption (...) are scared to stand on their own two feet, preferring to seek protection, and will do anything to remove even the possibility of competition” (Davigo 1993, 9). From this point of view, seemingly bizarre phenomena can be explained: take, for example, the marked tendency for Italian firms, notwithstanding the legal dangers, to create and openly display political relations, up to the point of being “internalized” (to use an economic term) by the centres of political power to whom they entrust part of their entrepreneurial initiatives. Actually, “contracts of protection”, by which political guarantee is exchanged for bribes, are more effective when they are long term. This is the description offered by the former mayor of Reggio Calabria, Licandro:

“[A surveyor of the Lodigiani firm] explained to me that they gave 4.5 per cent of the value of the work contracted. Three percent was for local politicians, including the big names: faction leaders or others important for some reason. The rest was for Rome. But for that they paid in a regular way, not in relation to each individual contract. Permanent relationships are preferred by the firms which pay bribes for public contracts, and all of them do. The relationship consolidates; its less risky like that. There's no need to start over again every time, having to intercept the right person and



running the risk of being cheated" (Licandro and Varano 1993, 83).

This ambiguous nature of protection is not lost on those who trade in it. Where firms maintain enduring relations with public organisations, short-term, intermittent protective services present serious inconveniences for both protector and protected. As for the protector, it may become difficult for a politician to impede that previously protected firms are helped even when they are not regular with payments<sup>21</sup>, or that they turn to someone else in an "extra-contractual" period. Intruders without backing or even swindlers can take advantage of such interruptions. For instance, in a secretly-recorded meeting Bruno Lucari, ex-Assessor of the Lazio Region, vividly displayed his surprise and annoyance on discovering that he had been backing a firm without protection:

Assessor: "You mean you did fuck all till now?"

Entrepreneur: "No, fortunately not, I told you."

Assessor: "What arseholes!!! ... I sign everything ... face up to everything ... You saw the continuation and enlargement of the works I got ... I did that ... I don't know who you are. I thought you people knew somebody. Get the idea?" (*La Repubblica*, 15/11/1991, 7).

As for the protected, a precise political mark simplifies dangerous activities, as the experience of a middleman in Bari reveals: "It was well known that such and such a firm was connected with such and such a party. Thus when the person to whom the envelopes or packets of money should be paid was not specifically stated, he already knew precisely to whom the consignment should be made" (TRIB, 271). On the other hand, with short-term protection contracts, the protected enterprise risks having to operate in an insecure environment, facing bureaucratic obstruction or being put under pressure even when up to date with bribery payments. Both parties, therefore, have a common interest in creating a relationship of indefinite duration; in these cases, as it has been observed for the Italian Mafia, "protection works better through prevention rather than repression (...) Thus, protection is a potentially infinite sequence of acts which cannot be identified or distinguished from one another" (Gambetta 1993, 56).

A demand for protection tends to emerge in every social context characterized by high levels of corruption, when transaction costs concerning property rights over political rents are higher, and the "natural" relationships between citizens and the state tend to generate conflicts and mistrust. Political organizations can respond to such demands, supplying protection which can surrogate such lack of trust in the state. As Pizzorno observes:

"We could say that the party system in Italy was not a *participation* system anymore, having become a *protection* system. (...) A good politician, especially at the local level, was mainly a good protection supplier. A firm could find it profitable to belong to a political area—which does not mean necessarily a party's area, but even a fraction's area, or even an area close to a certain political actor. (...) It could then obtain public contracts, privileged information, absence of controls, and so on. Sometimes there was no specific benefits, but the firm could simply be admitted to the 'inner circle', to acquire a privileged and protected citizenship" (Pizzorno 1996, 269).

Actually, a protective role of political parties is deeply rooted within their institutional functions. According to Galeotti and Breton, political parties can be seen as guarantor of the performance of both representatives and citizens in the political-electoral exchange:

"Political parties are the loci of property rights through which the promises and expectations of citizens and of representatives are transformed into quasi or implicit contracts and through which these contractual arrangements are 'enforced'. Political parties can fulfil that functions because they are networks of relationships based on trust. The links that constitute the networks and embody the trust can be strong or weak and can vary over time and as circumstances change. These bonds of trust are what support property rights and, therefore, permit exchange to take place (1986, 54)

The accountability of representatives in political exchanges is highly vulnerable to defection, since the terms of the implicit contract are naturally uncertain, being based on "bundles of promises" of public policies advanced by candidates at discrete time intervals. It then becomes relatively easy for political representatives and citizens to renege the promises or contractual agreements they have made each other. In other words, transaction costs of political exchange are very high, since rights over such political resources are far from being clearly delineated, and people will often find in their interest to try to capture such values.

The repetition of these complex and multi-levels networks of political exchange can require parties as institutional device for the guarantee of the fulfilment of promises in the activity of political intermediation:

"If a representative of interests wants to obtain a specific measure, he can offer in exchange to the decision maker specific resources at his disposal (money, favors, votes, etc.). But this exchange remains bilateral, and with a more or less immediate nature. In order to make possible transaction *which last in time*, and which involve *a high number of actors* (and resources may then circulate) it is needed the intervention of a class of middlemen, and a guarantee of trust in them, which is made necessary by the non-contextuality of payments. The party, with its lasting structure and his public exposition, can be considered as a form of guarantee of political intermediation. A sort of institute for political credit, which is made possible by that continuous verify of the quantity of credit dispensable, which takes place in the electoral process" (Pizzorno, 1993, 275).



The guarantee of trust furnished by political parties reinforces the beliefs or expectations that promises reciprocally made in the political market by A and B will be honoured: "Because trust is always defined in terms of promises and fulfilment of promises and is, therefore, necessarily a time-dependent process, the costs incurred by A and B produce a capital asset which, not only permits A and B to trade with each other, but allows them to trade at a lower cost than would otherwise be possible. The consequent reduction in transaction cost is the (gross) yield on trust" (Breton and Wintrobe 1986, 55). The accumulation of trust within the political parties permits the sanctioning of other trades which—like those between citizens and representatives—are not legally enforceable, nor are self-enforcing.

Parties can therefore produce trust, which is used to guarantee political exchanges, through several mechanisms. First, in political parties there is a repeated interaction among people with shared ends, which permits them to discover that they could gain by trading reciprocally trusting and cooperating. Secondly, time horizon of political parties is generally longer than single individuals': since parties "stay in business" for a longer time, the short-term gains from defection (which prevent trust from developing) are proportionally less attractive for parties than for individuals. It then becomes convenient for political parties to sanction their "cheaters", preventing trust from being breached through defection of their representatives and "lame-duck" officeholders. Finally, there is a "reputational" effect which is connected with the *public* adoption of a recognizable set of promises and opinions by a political party, and which then becomes a sort of his own trade-mark: to maintain its value, the party must be trustworthy, not deviating too much from them. Once formed, the networks of trust which reinforce the structure of political organizations serve to guarantee that the promises to exchange made by representatives and citizens will be sanctioned, "but more importantly, they impart a continuity over time to the exchange process, which the intervals between elections would appear to belie (...). In a word, the larger the trust, the lower the transaction costs and the more continuous the political exchange process" (Breton and Wintrobe, 1986, 56).

Trust and protection produced within political parties support property rights which make possible to realize the "gains from trade" implicit in political exchanges. Actually, as we have seen, a demand for protection emerges in another context: the hidden market for corrupt exchanges. As the currency issued by the state is guaranteed as official medium of exchange, so the *trust* in the fulfilment of promises or the collection of credits, which is offered by political organizations like parties, permits the reduction of otherwise very high transaction costs of corruption. Authority within parties become then a resource for the strengthening of beliefs or expectations that persons will honor their

promises in the corruption market, or in their uncertain relationships with the state. The availability of an external guarantor means that it is no longer necessary to trust one's partner in corrupt exchange personally (although both partners must of course be convinced of the protector's ability to enforce the agreement). Political protection is not supported, as in the case of the state and the criminal organizations, by the credible threat of violence, and may correspondingly be less effective. Moreover, private protection can reduce the transaction costs of corruption, but since it is not supplied by the state as a "public good", it must be bought privately by a potentially fraudulent seller. In fact, also in this second-level market for political protection, often a necessary condition for the first-level corrupt exchanges of property rights on political rents, there is the risk of buying a "lemon", that is to pay for a false protection. The party's organization—with its institutional system of sanctions and incentives—can nevertheless generate lasting expectations of trustworthiness in the protection market, posing itself at the top of an informal hierarchy of political protection individual suppliers.

As stressed in paragraph 2.2.1., the presence of an external guarantor is sometimes a necessary pre-condition to overcome the reciprocal distrust of contracting parties. The protection provided by the political parties appears important in settling the controversies which can emerge between the various agents in corrupt exchange, both at central and local level. As for every scarce and valuable commodity, political guarantees can then be demanded and supplied in exchange for a price, i.e. a quote of the bribe. Such a situation emerged over the contract for providing conveyor belts for the port of Manfredonia. The entrepreneur in question had to pay a bribe of five per cent to Wladimiro Curatolo, a member of the DC. The latter would then be responsible for dividing the money between the various parties involved. An argument broke out, however, among members of the PSI and the situation of the entrepreneur became critical. "Things were already agreed when Curatolo appeared saying, 'As of now I only represent the DC and PSDI. The Socialists are fighting among themselves and I don't want to have anything to do with it'. I protested but there was nothing to be done" (*La Repubblica*, 16/2/1993, 11). To overcome his problem the entrepreneur was obliged to contact the National Administrative Secretary of the PSI, Vincenzo Balzamo: "On hearing of the matter and the value of the contract", the latter "told me that given the amount involved I should have gone directly to him and took the responsibility for dealing with the hot potato. When Balzamo contacted me he told me that he had been in touch with Manfredonia and the situation was a very difficult one. He then told me that he personally would contact the three PSI members involved" (CD, n. 202, 8/2/1993, 5). The three local PSI members were obliged to accept the arbitration of the central administrative structure of the party (handing over half of their expected bribe to Balzamo) and the situation, which was dangerous for the party



as well, was resolved. The entrepreneur continued: "It was Balzamo himself who later told me that it had been hard with the three ... they were tough customers and untouchable. In the end though he was able to impose his point of view. In any case, after Balzamo's intervention I had the proof that things had gone well ... because the work went better; without problems" (CD, n. 241, 30/3/1993, 5).

Moreover, the party presence in the public administration offers to the various participants in hidden transactions the possibility of *distributing sanctions*, such as exclusion from the corrupt game, to punish those who defect. The *internal* risks of corruption, that is the transaction costs related to the probability of breach of corruption contracts, can in fact be reduced by the system of incentives and sanctions managed by the party's structure. On the other hand, when corruption becomes widespread, the internal structure of political parties becomes more fragmented, with many local "feuds" organized around local bosses as semi-autonomous centers of power: "On the territory it emerges a network of political machines aimed at making widespread, continuative and reciprocally protected corrupt exchanges" (Belligni, 1995, 178). Political parties are then divided into factions financially and politically autonomous, which can reach hidden agreements and form alliances with other groups and fractions and sectors of the bureaucracy (Pizzorno, 1996, 268).

If political finance is not, in itself, a source of corruption, it can nevertheless generate corruption when, as in the Italian case, the state has a wide power of designation into public and private roles: who occupies those roles has incentives to take bribes buying with (part of) them the protection required from political parties and leaders. Political protection is in fact a pre-requisite for careers in political roles as well as in the public administration. The segmentation of corrupt political parties is confirmed by the analysis of bribe flows, which only in some cases were collected by central party treasury (as in the Pci-Pds case, or in the Psi and Dc case for more important firms), being otherwise destined to local centers of power (as influential politicians, fractions, etc.). Other factors which may have increased the recourse to corruption are the reduction of parties' internal sources of financing (due to crisis in participation and lack of support), the multiplication of political actors (as new parties, factions, groups) which are not directly financed by the parties, the lack of precise limits to expenditures posed by the law to political actors (*Comitato di studio* 1996, 19).

In the circumstances of illegality associated with hidden transactions, the political parties can be likened to a credit agency managing trust between the various parties involved (Pizzorno 1992, 32-33). Given their widespread power of nominating the upper levels of public bodies, the parties can sanction

particular transactions thanks to their punitive power over political administrators and private individuals, guaranteeing the fulfilment of secret agreements and the overall functioning of the illegal market within distributive 'norms' created over time (Vannucci 1997a). The parties power of reinforcing delegation, procuring advantages for the representatives (the party apparatus, in other words) (Pizzorno, 1971), makes the internal protection essential for having rights to the participation of the selective sharing of "dividends" (in terms of status, power, money) of the organization. In fact, these functions were "paid" by the allocation of a "supplementary" quota of the bribes to the parties, over and above that received by individual administrators involved in the decisions necessary for closing the secret deal. As Maurizio Prada, DC "treasurer" of Milan revealingly explains: "Even before 1987 I received contributions from certain companies and continued to do so after the end of my mandate as president of the ATM in 1990 ... In other words, the companies paid me because I was one of the local treasurers of the *Democrazia Cristiana*" (in TM, 74). Controlling the nomination in public bodies, the parties can generalize the sanctions connected with the violation of the established rules and norms which support property rights over political rents, at the same time guaranteeing the continuity of the system over time, in a wider time-horizon which goes beyond changes in the public personnel. Mechanisms of political control over nomination and careers within the public administration become not only a system of socialization and "certification of trust" in corrupt exchanges, but also a system of institutional disincentives: those who respect corrupt contracts can be guaranteed in their attempts to gain property rights over political rents, anyone who defects, denouncing or exiting from the corrupt game, will be punished through enduring marginalization from the system of political protection.

There is another source of transaction costs which determines a demand for protection: the *external* risks of bribery, linked to the possibility of being denounced and exposed to the repressive action of social control agencies, must also be minimized in order to reduce the incidence of transaction costs in corrupt dealings. The guarantee of protection from the action of magistrates is another essential function fulfilled by political parties. In Italy in the last decades various strategies based upon intimidation have been adopted against magistrates who pierced the circle of political illegality: pressure by superiors more sensitive to "political needs", marginalization or transferal, even assassinations, in the case of investigations unveiling the relationships between organized crime and politicians. Inquiries were removed as quickly as possible from the magistrates responsible for the initiative and transferred to judicial seats more inclined to suppress the matter. As recent investigations indicated, several judges received political protection as well as considerable economic "compensations" - more or less hidden forms of bribes - for their services of judicial protection offered to



corrupters and corrupted, powerful Masonic brothers, Mafiosi and secret service agents. In particular, recent inquiries have described an hidden network of corrupt judges of the Tribunal of Rome that sold their sentences and acts in particularly valuable cases, being paid by entrepreneurs and “friends” lawyers who operated as brokers (*L'Espresso* June 12, 1997, 60-63). Before *mani pulite*, political protection against judicial inquiries proved to be effective. Politicians under investigation or suspected of responsibility could then quickly hide themselves beneath the protective umbrella of parliamentary immunity, almost invariably an insuperable barrier.<sup>22</sup>

As a consequence of the stipulation of protection contracts between political organization (as parties, fractions, etc.) and private organization as firms there is a blurring of the line of demarcation between political and economic power, which produces a dangerous overlap of roles and interests. Actually, numerous corrupting firms were distinguished by a *party label*. In return for the informal use of this “trademark” - which ensured a good reputation and a stable and prolonged influence on public decision-making - party enterprises provided stable finance for that particular centre of power. The entrepreneur Romano Tronci claimed, for example: “In our field we're known to be 'friendly' with the PCI ... There is a continuous and organic relationship of contribution and support between our group and the PCI in the sense that we consider ourselves integrated in the system of the party and as such part of our proceeds go to it.” The “trademark of protection” must be identifiable so that local administrators have a firm idea of enterprise's position and do not create problems. For this reason the contributions made to the party (three billion lire over eight years) were paid by “participating at *L'Unità* [the party's daily paper] festivals throughout Italy, by sponsoring the Party Almanac ... What Assessor, knowing our serious and organic links with the party, would demand a bribe?” (*L'Espresso*, 4/4/1993, 59). With these political ties firms can plan future investment and activities with greater certainty, without having to overcome “political” obstacles. The Milanese cashier of the Socialist Party, Sergio Radaelli, recounted that he had been approached by an entrepreneur who was looking for protection: “He gave me a white envelope filled with money (...). He simply said: 'I have good relationship with the party, but I am not able to meet the mayor’” (TM, 59).

The *personal* component which characterizes many illegal relations becomes less important in such cases. As already noted, a collector for bribes—the administrative secretary, or someone else trusted by the party leadership and informally charged with this task—is secretly selected within the parties and firms then deal with them, regardless of the individual delegated at any particular moment. A fixed annual sum given to the cashier of the party with whom relations are maintained, as a sort of tax, appears the standard form of

payment. Augusto Rezzonico, a member of the DC, recalls: "Many entrepreneurs came with money asking to be introduced within institutional organs ... The Rgt Hon. Citaristi [party administrative secretary] was the person who managed relations between the enterprises and public bodies in order to establish a privileged channel of access to public contracts" (*Panorama*, 6/12/1992, 47).

On their side, the politicians nominated or elected in the governing bodies of public enterprises—who need the support of their party for their career—have all the interest in actively favouring party-protected enterprises. Pierfranco Paletti, nominated by the Republican Party in the governing body of the ENEL, stated: "The firm Fochi from Bologna, that has received contracts from the ENEL, is considered as 'friend' of the PRI. As such, I acted in order to protect it for public tenders" (CD, n. 246, 30/3/1993, 7). Firms will have an incentive to follow the advice of their political protector who, pocketing a sum proportional to the political rents, will seek to direct them towards the most fruitful opportunities. Salvatore Ligresti has stated, for example: "The Socialist secretariat had a general disposition in favour of my group, also because of the periodic contributions we paid. As far as I know it was not us who pressed for the success of this or that initiative. The politicians decided autonomously, case by case, which of our initiatives to sponsor" (*L'Espresso*, 6/12/1992, 58). According to Roberto Buzio, collaborator of the PSDI's secretary Cariglia, from an agreement between the latter and the Minister of Public Works Prandini "the PSDI had the right to single out three 'friend'-enterprises to whom the ANAS would have given tenders and from whom we could autonomously receive the money we wanted. I singled out three enterprises, and named them to Prandini" (CD, n. 443, 24/6/1993, 4). A high degree of *identification* thus develops between firm and political protector; a congruity of interests and objectives cemented on occasions by active political involvement on the part of the entrepreneur. However, in this symbiotic relationship there may be some drawbacks: by tying its fortunes to those of a particular centre of political power a firm exposes its prospects of profit in the public markets to the natural turbulence of party competition: mobility of particular leaders; shifting coalitions; internal political conflict; electoral uncertainty.

#### 4. CONCLUSION

The *mani pulite* inquiry, which has temporarily halted the perverse ascending spiral of corruption and inefficiency, had many beneficial effects on Italian politics and administration<sup>23</sup>. Nonetheless, the action of the magistrates has broken only one of the rings in the chain of reciprocal causation by increasing the perception of the risks involved in corruption. Exasperating slowness,



unjustified delays, normative complexity, procedural quagmire, clientelistic practices, organized crime protection—in other words, the components of the structural inefficiency in public activity which feeds individual demands of protection—continue to be present. As observed by one of the judges of *mani pulite*, Gherardo Colombo:

"It is nonetheless impressive, disappointing, and frustrating for professional effort, that in the last four years not a law nor a measure has been adopted to make inquiries easier or - at least to a certain extent - corruption more difficult. Not a measure to modify controls, making them more effective, not a measure to remove from public administration all those who for dozen of years have sold their function"(Colombo 1996, 154).

Nor the prevailing cultural and ethical attitude of public administrators and citizens, the observed lack of "sense of the state" and civic culture, is presumably changed in the last years, maintaining weak moral barriers to corruption.

Recent data seem to reinforce this pessimistic stance. In Transparency International index on the perception of corruption Italy constantly remained in the first place among western industrialized countries. In the last few years there has been no significant change both in relative and absolute terms, being the lack of trust in the honesty of Italian political and bureaucratic élite almost constant on very high levels. A confirmation could be found in another statistic, made by different public opinion polls over 43 countries. Italian citizens are the most pessimistic: 42 per cent of them has a consideration of the Italian political class as the "most corrupt in the world" (*La Repubblica*, November 12, 1997, 20). Nor *mani pulite* inquiry seems to have had significant effects on the attitude of businessmen: according to an opinion poll made by Swg-Confesercenti (28-29 January 1997), 50,5 per cent of commercial entrepreneurs hold corruption to be as widespread as in the past, 23,3 per cent believe in a reduction, 18,3 in an increase. Meaningfully, almost the same result emerged from an analogous poll made in 1992, shortly after the beginning of *mani pulite*. The wall of mistrust in the political and bureaucratic class is very difficult to knock down.

Many entrepreneurs observe that at the present the main effect of *mani pulite* seems to be an increase in the "price" of corrupt exchange—the bribe paid—to compensate the higher perception of the risks of this illegal dealing, with no perceptible reduction in the total amount of corruption. As noted by an entrepreneur: "Before 'mani pulite' the bribe could vary from 5 to 10 percent of the public contract value. Now to corrupt is more expensive and public administrators try to use more sophisticated techniques to hide their corruption" (Benassi e Sganga, 1994, 48). The dynamics of the market for corrupt exchange are then influenced by the increase in the risk of exposure, not enough to make

the expected costs higher than its benefits, but modifying the structure (and the price) of corrupt transactions recently brought into light. Illegal conventions and informal norms are still effective, but trustworthy political guarantors are not available (or have not enough power to effectively enforce illegal agreements and protect them from judicial inquiries anymore). The scarce supply of political protection, in turn, increases the transaction costs and consequently the amount of bribes paid in the corrupt exchanges. Italian corruption seems to be “submerged” again, and more difficult to find out, but still widespread. This causes a more limited and cautious circulation of restricted information concerning individual willingness to corrupt exchanges, increasing the “internal” risks of incurring in a fraud from “dishonest” partners, or in a denounce from “honest” ones (Davigo, 1998). Anyway, without any institutional reform, the persistent possibility of obtaining property rights on huge political rents brings about a strong demand for corrupt activities. In this new equilibrium the price of corruption becomes higher, but the number of transaction is not significantly reduced (or may even have increased). Actually, it is difficult to consider this as an achievement.

Alberto Vannucci  
Department of Political Sciences  
University of Pisa



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## LIST OF ARCHIVAL DOCUMENTS FROM COURT RECORDS

TNM *Tangentopoli. Le carte che scottano*, (pp. 65-86 Excerpt from the “Richiesta di autorizzazione a procedere nei confronti dell'on. Bettino Craxi”, 12/1/1993), supplement to “Panorama”, February 1993.

TM A. Carlucci, *Tangentomani*, Baldini & Castoldi, 1992 (the books published reports of evidence from interrogations).

PM *Mani Pulite*, supplement to “Panorama”, October 1992.

TRIM Court of Milan, SC n.3182/89, 22/12/1989.

PROM Public Prosecutor at the Court of Milan, PP C in JP n.2537/88A, and JP n. 2620/88A, 12/2/1991.

TRIB Court of Bari, SC n.861/85, 29/11/1985.

TRIS Court of Savona, SC n.145/85, 8/8/1985.

PR Public Prosecutor at the Court of Rome, PP C in JP n.10726/88A and n.6302/88A R.G.P. M., 20/2/1991.

QGT Court of Turin, SC against Zampini +19, 15/3/1986, excerpts in *Questione Giustizia*, 2, 1987, 356-397.

APV “Richiesta di autorizzazione a procedere nei confronti degli on. Gianni De Michelis e Carlo Bernini”, *Avvenimenti*, September 2, 1992, 14-19.

CD Chamber of Deputies, XI legislatura, “Domanda di autorizzazione a procedere in giudizio”, doc.IV.

## ENDNOTES

<sup>1</sup> The enduring nature of these illegal earning opportunities, as observed by Jagahathan (1986, 127), "implies the creation of intangible property rights within these systems". The discretionary choice of a politician to "sell" his decision-making power will be rational if the net advantage anticipated is greater than that which could be got from legally exercising that power, or, more generally, if no more remunerative use exists for the resources employed in corruption.

<sup>2</sup> These property rights refer to *scarce* goods (material or otherwise): "Property rights are understood as the *sanctioned behavioural relations* among men that arise from the existence of goods and pertain to their use. These relations specify the norms of behaviour with respect to goods that each and every person must observe in his daily interactions with other persons, or bear the cost of non-observance" (Furebotn and Pejovich 1974, 3).

<sup>3</sup> When the priority of public agents is the (unproductive) search for gain rather than the *raison d'être* of the institution, a loss in organizational efficiency is to be expected. The *influence cost* of such activity is two-fold. On the one hand, the distortion of the decisions taken (which would otherwise have been different). On the other, the investment of time and effort in appropriating revenue without creating any collective advantage. "Rent seeking on the part of potential entrants in a setting where entry is either blocked or can at best reflect one-to-one substitutions must generate social waste. Resources (...) might be used to produce valued goods and services elsewhere in the economy, whereas nothing of net value is produced by rent-seeking" (Buchanan 1980, 8). For a review of the literature on the social costs of rent-seeking activities see Buchanan, Tollison and Tullock (1980), Rowley, Tollison and Tullock (1987).

<sup>4</sup> Tanzi (1994) and Acemoglu and Verdier (1997) emphasize the contribute to the spread of corruption given by pervasive public sector and government intervention.

<sup>5</sup> The problem of "contractual opportunism" concerns all principal-agent relations, not just the public sector. Corruption can also be present in market relations wherever the distribution of information between the contracting parties is asymmetrical. The idea that corruption can be beaten by the state withdrawing in favour of the market may thus prove illusory: "While it is true that *perfect* competition in *all* markets will prevent corruption, deregulation will almost never lead to the resumption of a market resembling the competitive paradigm. Indeed, many of the market failures that justify government intervention are the very same conditions that generate corruption in the absence of intervention. Thus scale economies, externalities, and products which are unique or of uncertain quality all create incentives for employees to enrich themselves at company expense. Deregulation may simply mean the substitution of a corrupt private official for a corrupt public one" (Rose Ackerman 1978, 207).

<sup>6</sup> The commodity "protection" has some "public good" aspects: once it is offered to some individuals, others also benefit from it. To transform protection services into a commodity to exchange, Mafia has nourished mistrust and uncertainty concerning property rights, protecting criminal activities as well, and has promoted "energetically" its purchase in a general way. Moreover, when there is a supply of private protection, mistrust and uncertainty spontaneously increase: "Distrust, in other words, becomes *endogenous* and need no longer to be thought of as a precondition external to Mafia protection market" (Gambetta 1993, 27).

<sup>7</sup> According to Max Weber, payments to the Mafia are similar to those given to political groups in exchange for "extorted services": "These services are initially intermittent, but in practice they become 'periodic payments' in exchange for a guarantee of security. This is the



observation of a Neapolitan builder as given to me 20 years ago, in reply to doubts on the efficiency of the Camorra with respect to his business: 'Sir, the Camorra charges me X lire each month, but guarantees security - the state takes ten times as much, but does not guarantee anything'" (Weber [1922], 195).

<sup>8</sup> The huge variety of Mafia symbols and initiation rituals can be explained by the nature of the commodity protection, whose quality is very difficult to ascertain. Everything which can convey information, expectations, emotions, beliefs and reputation about the quality of protective services then becomes very valuable. Even "Mafia" or "Cosa Nostra" can be seen as successful trademarks of the main protection industry in Sicily. It is an asset which is the common property of different families that often fight each other in order to increase their market share (Gambetta 1993, 155).

<sup>9</sup> "The formation of spontaneous orders is the result of their elements following certain rules in their responses to their immediate environment ... Society can thus exist only if by a process of selection rules have evolved which lead individuals to behave in a manner which makes social life possible" (Hayek 1973, 43-4). This principle applies on a smaller scale to the "social life" of the market for corruption. Francesco Saverio Borrelli, Milanese Chief Prosecutor, states that his impression that "[the system of corruption] is something that has grown spontaneously over time. Once it was recognised that the interests of those governing and the interests of those who wanted to do business could easily be married in this way, that a bargain could be struck and opposition silenced, the phenomenon grew on its own, gaining momentum day after day" (PM, 48-9).

<sup>10</sup> Naturally, other norms are possible, corresponding to different equilibria. If it is expected that the others will inform the authorities of any attempt at corruption then sharing that honesty is the best strategy. The spontaneous emergence of a norm in no way imply that its effects are desirable, even for those who respect it. For example, when all entrepreneurs respect the bribery rule, the benefit for each of them tend to cancel out (MacRae, 1982). Nevertheless, even in this case generalized corruption has an intrinsic robustness: no one has an interest in evading or defying the system. This is even more so for individuals outside the group in which the conventions are formed and observed and who suffer its perverse consequences.

<sup>11</sup> These costs are particularly high in illegal exchange because they include the danger of legal sanctions. This would explain, for example, the annoyance of one entrepreneur, De Mico, with the attitude of the director of works in the construction of the Venice prison. Contrary to the situation with other corrupt officials it "was never possible to find an arrangement to avoid continual disagreements. For four or five years I had to pay according to his will and inclinations" (PROM, 649-50).

<sup>12</sup> Boycko, Shleifer and Vishny (1995), analyzing privatization processes in Russia, emphasize how the non enforceability of corruption contracts in courts usually makes control rights on the "goods" and services exchanged uncertain and arbitrary.

<sup>13</sup> According to Buchanan (1980, 119), the overall level of crime and the amount of resources which must be devoted to law enforcement fall when organised crime has a monopoly: "If monopoly in the supply of 'goods' is socially undesirable, monopoly in the supply of 'bads' should be socially desirable, precisely because of the output restriction". On this argument, monopoly-based corruption also would be *socially* preferable to a situation where it is practised by a large number of independent actors because the overall extent of the phenomenon would be less.

<sup>14</sup> In a similar way, Olson explains the fact that in the 1920's in China people preferred warlords who were stationary bandits, continuously stealing from a given group of victims, to roving bandits who soon departed: "If the stationary bandit successfully monopolizes the theft in his domain, then his victims do not need to worry about theft by others. If he steals only through regular taxation, then his subjects know that they can keep whatever proportion of their output is left after they have paid their taxes. Since all of the settled victims are for him a source of tax payments, he also have an incentive to prohibit the murder or maiming of his subjects. (...) The monopolization of thefts and the protection of the tax generating subjects thereby eliminates anarchy" (1993, 568). In the case of corruption, however, the "output" shared with "bandits" is not generated by productive activities: it is instead a political rent deriving from state activities influenced by the same "monopolist authority". In other words, such resources are often "stolen" to the public, making these protective agreement much more convenient for both involved parties.

<sup>15</sup> Where this expectation of protection is not met protest quickly follows. The public-sector manager Zamorani recalls that Pizzarotti, an entrepreneur, "complained about the lack of intervention from the centre to deal with local party politicians, it being implicit that he had paid or promised to to pay sums of money to the centre and, notwithstanding that, he was still meeting with resistance in the periphery" (*La Repubblica*, 6/10/1992, 17). In fact, the effective supply of such protection permits the "internalization" of the costs and risks of decentralized bribe-taking, deriving from the simultaneous presence of many independent corruption rackets (Bardhan, 1997, 1324).

<sup>16</sup> For a more detailed analysis of the "vicious circle" which tends to increase simultaneously corruption and administrative inefficiency, see Vannucci (1997b).

<sup>17</sup> A positive correlation between corruption and the size of U.S. government (measured by public spending) emerges from Goel and Nelson (1996). Several indices of economic freedom on over 50 countries also show a significant negative correlation with the Transparency International index of corruption (Chaufen and Guzman, 1996).

<sup>18</sup> A public manager, Zamorani, described the collapse of the system of corruption in the ANAS in the following terms: "More recently the firms had continued to pay but it longer worked. A nefarious and unproductive cycle developed in which everybody, large or small, was on an equal footing and one would pay more than the other in order to get ahead. The amount of money available steadily diminished while the number of aspirants for it steadily grew" (*L'Espresso*, 23/8/92, 21).

<sup>19</sup> Even in a "free entry" equilibrium corruption can affect the competition among firms, reducing their number and guaranteeing rents which are partially given to officials as bribes: "That in turn makes it possible for corrupt officials to demand larger bribes, and so on. This does not lead to the eventual extinction of all firms, because when the flow of payments from firms to officials reach a high level, the officials are no longer willing to risk the source of their bribes exiting" (Bliss and Di Tella 1995, 5-6).

<sup>20</sup> The lower the competition in either the political or economic arena (between a number of corrupt politicians or corrupting enterprises), the more robust would be collusive agreement in the other. In fact, a corrupt politician in search of clients may persuade an entrepreneur to defect from the cartel in exchange for a special advantage. Similarly, a particularly enterprising entrepreneur might be able to convince a politician not to divide bribes with others, thus obtaining exclusive protection. This is not to suggest that the presence of a cartel on one side of the market automatically brings it about on the other also, but simply that when a "bilateral monopoly" is realised, the probability that the resulting equilibrium is stable



increases.

<sup>21</sup> Hall (1996), in a study on private taxi service in Hong Kong, explains how police officers had elaborated a complex but efficient system to protect the circulation of taxi-drivers, who systematically corrupted them: in order to distinguish those they protected from the others, special badges were provided to those who paid the bribes. The form and colour of these badges changes every week, with every payment.

<sup>22</sup> The former PSI administrative secretary Vincenzo Balzamo so instructed his assistant: "Never get money from anybody, because I have the parliamentary immunity, but you don't" (*L'Espresso* February 14, 1993, 53). We may also observe that in 1992 and 1993 the initial successes of "mani pulite" was connected with the sudden weakening—due to the same judicial inquiries and to electoral defeats—of the main political parties and their leaders, that previously acted as guarantors of corrupt dealings.

<sup>23</sup> For instance, the price payed by the public administration for public contracts has at present become almost an half than before *mani pulite* investigation: from 300-350 to 150/250 milliards lira/km for the construction of the underground in Milan; from 83 to 40 milliards lira /km for the railway link (*Corriere della Sera*, 21 January 1997, 5).







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