

## **A State of Permanent Corruption? Organizations and Practices as Catalysts for Italy's Corruption Problem.**

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M. Ramos, A. Hira, J. Serrudo (eds.) Como disminuir la corrupción y mejorar la gobernabilidad en países de desarrollo. Tópicos Selectos de Recursos ©ECORFAN-Bolivia. Sucre, Bolivia, 2014.

## Abstract

Corruption in Italy can be considered a peculiar case of an economically developed nation that presents strong suggestions of pervasive environmental corruption. We argue that no single casual explanation accounts for all or even most of this situation. Hence, no one-dimensional approach to fighting corruption will ever be likely to address the problem. Instead, a complex and multi-faceted effort will be required: one that not only will involve the classic three prongs of punishment, incentives towards honest behavior and increased transparency but also go beyond them into more or less uncharted territory for Italian authorities. Success will only come if the apparatuses of the state begin by ridding themselves of the cultural and structural catalysts that enable and foster corrupt practices within the very organizations that are supposed to prevent and fight it.

## 6 Introduction

In this chapter we approach the case of corruption in Italy. The latter can be considered a peculiar case of an economically developed nation that presents strong suggestions of pervasive environmental corruption. We argue that no single casual explanation (i.e., the blocked nature of its national political system, the presence of powerful organized crime families, political and bureaucratic classes where dishonesty is seen as acceptable, and so forth) accounts for all or even most of this situation. Hence, no one-dimensional approach to fighting corruption will ever be likely to address the problem.

Instead, a complex and multi-faceted effort will be required: one that not only will involve the classic three prongs of punishment, incentives towards honest behavior and increased transparency but also go beyond them into more or less uncharted territory for Italian authorities. This will involve, first and foremost changing the cultural milieu in which corrupt practices take place today. To paraphrase Mao Zedong the Italian state must remove the water in which the corrupt swim. This will only succeed if the apparatuses of the state begin by ridding themselves of the cultural and structural catalysts that enable and foster corrupt practices within the very organizations that are supposed to prevent and fight it. In Italy, corruption is part of a larger problem of diffused illegality that – if not accepted – is often seen as a structural characteristic of the system. Within this broader, both cultural and practical milieu, we should set the challenge of dealing with what over time has become an issue of environmental corruption. This has contributed to the creation of a system of governance of corrupt and collusive behavior, which has exponentially increased the problems for those agencies that try to dismantle the problem by reducing the transaction costs embedded in any illegal transaction and by creating and reinforcing over time the cultural and practical elements of the governance system (Vannucci 2006).

We argue that an institutional economic reading, perhaps in the vein of Lambsdorfmann (2007), of the Italian case, sensitive to socio-cultural and historical contributing factors may help in both explaining Italy's past and offering at least a partial roadmap for future action.

The chapter is organized in five sections. In the next one we put forward some of the basic ideas and theoretical signposts that will help shape our analysis. In section three we deal briefly with the history and nature of Italian corruption, including some of the analytical questions that shaped previous research. The following section speaks to two of the most relevant sources of corruption in the country: political and criminal corruption while briefly highlighting recent changes and efforts by Italian authorities to enact effective anti-corruption legislation and practices. Finally some concluding remarks are offered.

## 6.1 Behavioral and Structural Catalysts to Corruption

Corruption presents two facets: it is an activity – a set of actions like offering or accepting a bribe – but it is also facilitated or enabled by specific structural characteristics of an administrative system. These characteristics act as catalysts for the corruptive activity itself. For example, if the fulfillment of administrative responsibilities passes through an excessively complicated or archaic model of reporting, or if the authority that is tasked with processing these files presents bottlenecks we can see how the opportunities for corrupt behavior would be more frequent than in a system with decentralized structures and a simplified and modern approach to reporting and processing administrative duties.

For example, by moving towards e-governance not only are citizens likely to see reduced processing times and the administration to enjoy higher levels of productivity, but a fully controllable administrative chain is enabled from the moment a file is opened to when it is closed. This does not in and of itself stop corruption and other illegal or illegitimate activities from taking place, but it permits controls by both the administrative unit in question and the courts that are superior to those that can be put in place in a conventional paper system.

In some cases, when a decentralized structure with not unduly complicated rules and modern tools is flanked by an open government approach we are also likely to provide citizens and organizations external to the state apparatus with the opportunity to control in a clearer and more in depth manner the activity of both politicians and bureaucrats.

This discussion, one should appreciate, is not terribly new. It was Klitgaard (1998) who argued that the basic formula to visualize corrupt practices is that corruption equals monopoly *plus* discretion *minus* accountability

$$C = M + D - A \quad (6)$$

In his model the likelihood of corruption is directly proportional to the level of control that officials have over a specific activity, and to the amount of discretion they have in allocating benefits or costs. It is inversely proportional to the level of accountability that they are held to. These are familiar calculations in Italy.

Ultimately, we can consider corruption as a response to process and structural problems in the political, social and economic systems that, within a polity, deal with the distribution of resources. In a properly functioning system an open and fair process regulates the access to resources. The mechanics of the process are clear, access is unfettered (within the boundaries of the rules regulating that access), and the tools available to both citizens and public servants are well suited to the process. Transparency and accountability are pervasive throughout the system and are used as a useful feedback loop to improve the efficiency of the system and the quality of the output, generally coming out on the side of increasing the ‘gain’ of the citizen in the relationship.

However, in a system with high levels of corruption we often find gatekeepers who monopolize or severely limit the avenues of access to these resources. The administrative processes that support these structures are often convoluted and overly complex with regulations that are in many cases both contradictory and esoteric. Gatekeepers tend to enjoy large latitude in their activities and there is a general lack of transparency and accountability. Often citizens are not seen as clients or legitimate users of a service but as little more than numbers in a bureaucratic practice if not a resource to be exploited.

Under these conditions, cronyism and corruption become the byproducts of many of the attempts at accessing resources. This is not to say that corruption is a fully structural event, or to relieve in any way the moral or legal responsibility of the actors who abuse their official positions, give or receive bribes and so forth. However, if we mean to address the problem of corruptive practices in full we need to deal with both the behavioral and the structural catalysts that favor or enable these practices. At the same time, we should be cognizant that, while redesigning the structure of a ministry or agency to eliminate gatekeepers may reduce corruption, the simple elimination of a node in this network will not be sufficient. Access to the resources that are distributed by and/or through this organization will continue to be a priority for various actors. Hence, the resource allocation rules must also change along with the network structure.

It may also be interesting to include in the arsenal of the anti-corruption fight more innovative ideas, like the principle of the ‘invisible foot’ that Lambsdorfmann (2007) put forward. He argues that “corrupt actors can neither commit to honestly serving the public nor credibly promise reciprocity to their corrupt counterparts. Reform is about exploiting this handicap” (Lambsdorfmann 2007, xiv). It would then be possible to employ a different set of measures that would include encouraging betrayal by one of the parties – for example by introducing asymmetrical penalties – in the corruptive exchange, better defining the terms of conflict of interest, and generally destabilizing the already risky environment in which corruption occurs (Lambsdorfmann 2007, 229). Even this should not be considered a foolproof solution in Italy because, as we shall see below, the challenges are complex and the system well established. However, a multi-pronged approach, focusing on destabilizing the very premise of environmental corruption, the almost ‘natural’ rules of corruption, is an important element in the fight.

## 6.2 Corruption in the Bel Paese: A Case of Italian Exceptionalism?

Historically, corruption is a common presence in many systems. Ch’in dynasty district officials received the *yang-lien yin*, an allowance paid on top of their salary, which translates as “money to nourish honesty” (Bardhan 1997, 1339). At the same time the Arthashastra, one of the earlier Indian public administration treatises, noted that “it is impossible for a government servant not to eat up at least a little bit of the King’s revenue” (Bardhan 1997, 1320). Ancient Italy was also host to corrupt practices. Political corruption in Rome was fostered in an environment where the patronage relation between the *patronus* and the *clientes* was capillary throughout the social classes and suffused Roman social, political and economic life, therefore shaping the nature of those relations (Perelli 1994). From Catilina’s second conspiracy, to Cesar’s allegedly shady financial dealings, tendrils of corruption run throughout the Roman Republic’s fabric. In the Middle Ages, Italian city states began utilizing an external chief administrative officer who went by the titles of *podestà* or *rettore*.

These men were chosen from outside of the local pool of administrators, tended to be kept separate from city life in their palaces and had limited terms of office to safeguard against the potential ‘contamination’ of their activities by factional politics and bribery. Cities that relied mostly on the local talent, as Genoa and Venice did, had strong safeguards built into their regulations. For example, Genoese consuls made their wives swear that they would not accept anything that might pertain to the consulate with a value higher than three *solidi* (Epstein 1996, 37).<sup>15</sup>

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<sup>15</sup> The solidus was originally a Roman coin of the weight of 4.5g of gold. It remained in circulation in the basin of the Mediterranean for centuries after the fall of Rome through its Byzantine counterpart.

### 6.3 The Italian Legislative Approach to Anti-Corruption: Recent Changes

Traditionally, the fight against corruption has been centered on a three-pronged approach. On the one side we have *repression*. This is a worthwhile measure, because the likelihood of some punishment for corrupt behavior will sometimes deter the wannabe corrupts. However, it is not a panacea. A second aspect is the attempt at creating *incentives* for public servants to be honest. This is not always possible, nor is it generally desirable to overstress this approach within the public sector. Finally, supporting *transparency* is a crucial part of making corruption more difficult. Here also we find some relevant issues with the degree of applicability of this prong of the strategy (Lambsdorff 2007).

As the European Union noted in its most recent report about anti-corruption activity (European Union 2014), Italy has just begun to develop a more comprehensive approach to anti-corruption. After having relied for the best part of a quarter century on a mostly punitive set of measures, the new anti-corruption law of 2012 (see more in detail below) and similar, recent legislation and administrative acts finally provided a stronger stimulus towards organizational measures.

For example, the Legislative Decree of 27 October 2009, n. 150 created the Independent Commission for the Evaluation, Transparency and Integrity of the Public Administration (*Commissione indipendente per la valutazione, la trasparenza e l'integrità delle amministrazioni pubbliche* – CIVIT ). The Commission approved in the fall of 2013 a three-year anti-corruption plan for the Italian public administration that was prepared by the Italian Department of the Public Function as an integrated approach to the issue. At the international level Italy joined the *Group of States against Corruption* in 2007 and proceeded to ratify the Council of Europe Criminal Law and Civil Law Conventions on Corruption in June 2013.

In general we can say that the effort of the Italian public administration has become more diverse, including a stronger focus on preventive and evaluative activities, and has joined albeit perhaps a little late the ranks of other countries at the international level. However, the European Union (2014) is still concerned that these steps may fall short of a full success.

In 2011, the Italian Commission for the Study and Elaboration of Proposals in the field of Transparency and Corruption Prevention in the Public Administration published a white paper (Italian Government 2011) that individuated two bases for corruption in Italy: socioeconomic and socio-cultural.

It also spoke about the lack of transparency and accountability, the high levels of latitude granted to public servants and the presence of monopolistic rent positions (Italian Government 2011). In sum to reinforce the ethical bases of the Italian Public Administration.

All of these are familiar notes, however, during the tenure of the Monti Government there was an initial – if not necessarily very coherent – attempt at dealing with the issue through legislative approaches that yielded Law 190/2012 and the Legislative Decree 235/2012, which we shall briefly deal with below.

We believe that these two legislative inputs in the anti-corruption fight in Italy exemplify both the good and the bad side of the country's approach and would help to highlight the challenges it faces.

## 6.4 Corruption in the Italian Criminal Code

In modern Italy, the Criminal Code disciplines corruptive activity. This includes both the crimes of corruption (*corruzione*) and that of malfeasance in office (*concussione*). In the first case, it is the citizen who has the active role of initiating the illegal activity; in the latter it is started by the public official. Corruption<sup>16</sup> is listed as a crime against the public administration and, while a variety of specific criminal activities can be found under this area, three elements are generally seen in the jurisprudence as common to corruption. Firstly, it is a crime committed by the public official, secondly it implies some kind of an agreement with a private actor, and finally, it involves the exchange of money and/or other benefits among the parts. Malfeasance in office covers the abuse by public officials, who utilizing their position either force or induce someone to deliver money or other benefits to the public official.

## 6.5 Law of 06 November 2012, n. 190 [Disposizioni per la prevenzione e la repressione della corruzione e dell'illegalità nella pubblica amministrazione]

This piece of legislation is important because it represents an attempt at developing a concrete response to corruptive practices. It also highlights some of the usual problems with the Italian approach to anti-corruption. For one thing, this *omnibus* law contains only two sections, the first of which has 83 sub-sections. Furthermore, the legal provisions that pepper these subsections are not always clear or exhaustive. This makes it harder for those who are mandated to implement the law to create a coordinated approach among the various norms. That said, the law moves Italy towards a reconciliation with international norms and treaties in the area of anti-corruption. It also establishes the CIVIT Commission seen above as the organizational spearhead for anti-corruption activity, and gives the Department of the Public Function the duty to promote common norms and methodologies to prevent corruption, develop a national anti-corruption plan and ensure that there are efficient communication channels between public administration levels and the CIVIT Commission.

Subsection 15 legislates what we could call a principle of open government in that it speaks to the fundamental principle of transparency in public administrative activities. Such transparency should be guaranteed through the publication of the information about administrative processes following the criteria of easy access, completeness and ease of consultation.

The following subsections deal with a host of areas, including contractual law, the monitoring of the contractual process, transparency and so forth.

## 6.6 Legislative Decree of 31 December 2012, n. 235

The Decree, also known as *Severino Law* from the name of the Justice Minister in the Monti Government under which it was created and passed, establishes the legislative signposts regarding the prohibition for persons who have received a guilty sentence in the third and final degree of the Italian justice system to stand for political office and be either an elected or government official. Applied for the first time for the National Elections of February 2013 and the Regional Elections of August of the same year, the first round of application of this decree led to the decadence of 37 among municipal and regional councilors, but its most famous 'victim' has been former Premier Silvio Berlusconi.<sup>17</sup>

<sup>16</sup> Disciplined under Sections 318-321 of the Italian Criminal Code.

<sup>17</sup> It should be noted that the activity for which Mr. Berlusconi was removed from his post of Senator in October 2013, had occurred before Legislative Decree 235 was passed. Some doubts about the constitutionality of this procedure were raised by Mr. Berlusconi and its *Popolo della Libertà* party. However, the Court of Appeal of Milan noted in one of its

What can be gleaned from this short excursus? On the one hand it is safe to say that the Italian legislator has finally embraced the concept that a different, more complex approach to anti-corruption legislation is needed. Whether the commitment will be more than just a façade or whether it will be able to have a lasting impact on the Italian problem it is too early to say. The early analyses of these efforts have been mixed, both in terms of the efficacy and capacity of the organizational structures that have been put in place, and of the overall clarity and comprehensiveness of the legal and regulatory apparatus on which the anti-corruption effort stands (Transparency International Italy 2012; European Union 2014).

## 6.7 Italy, Corruption(s) and Corruptors: A Brief Introduction

Italy is often represented in its own and in foreign media, popular culture and official reports as an endemically corrupt system.

Conflicts of interest, bribery, embezzlement, nepotism, abuse of power, receiving illegal contributions, extortion have become all too common companions to the daily lives of Italian citizens at all levels. The concept of working around – as opposed to following – the rules seems oftentimes embedded in Italian practice.

On the one hand we have the massive corruption exemplified by the *Mani Pulite* (Clean Hands) operation, of the 1990s that led to the dissolution of the so-called First Republic. While the results of that operation may have swept away part of the corruption, the public administration remains far from blameless in the area. According to a report compiled by the *Guardia di Finanza*, the Italian law enforcement branch dealing with financial crime and smuggling, during the first 10 months of 2013 a total of 5,073 public servants had been indicted for crimes related to corruption for a total financial damage to the state of over €2B (Sarzanini 2013).

On the other hand, there are the apparently capillary petty fiscal evasion practices of retailers, exemplified by the results of the December 30, 2011 operation of the *Guardia di Finanza*, that after placing officers in a wide selection of retail points in the luxury vacation spot of Cortina D'Ampezzo, recorded a 400% increase in sale receipts compared to the same day in 2010. In between we find the widespread reports of criminal organizations extorting 'protection' money from businesses, rigging public tenders, laundering money, bribing public and private officials and so on (Balsamo 2006; Canonico et al. 2010).

It is also the case that in various areas these three typologies will coexist to some extent. For example, in sectors where the mafia or camorra are prevalent, political collusion and corruption, extortion and threats, and petty practices all exist alongside one another.<sup>18</sup>

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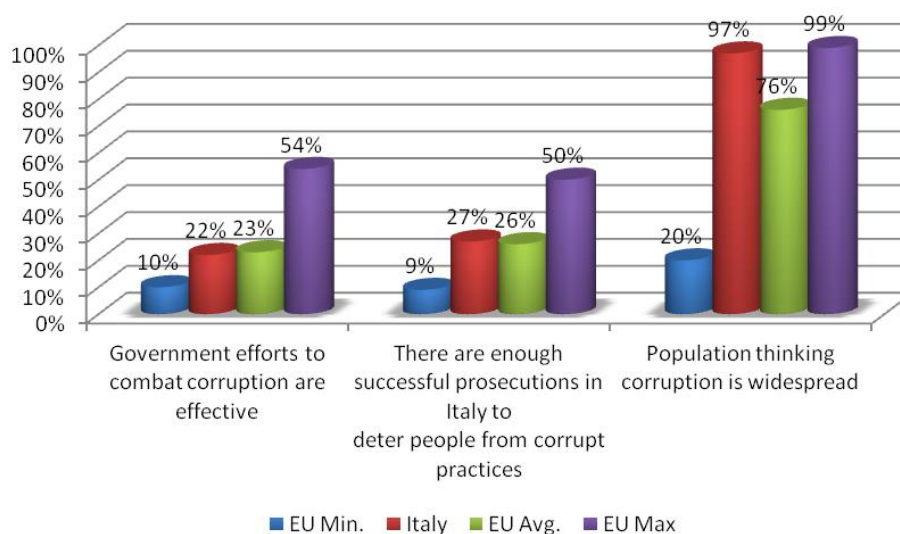
sentences that the principle of non-retroactivity of the law does not apply in this case because the Decree is, in practice, an administrative rather than a legislative norm.

<sup>18</sup> One should refrain from the all too easy – and incorrect – assumption that Mafia, Camorra, 'Ndrangeta and the Sacra Corona Unita are regionally bound to the South of Italy. While in some of their strongholds of Naples and Palermo the clans control economic, political and social life to a very deep extent modern organized crime follows profits across not only Italy but also the world. It relies on sophisticated machinery that appears as comfortable with high-level corruption to secure large construction contracts as it is with the sale of 'counterfeit' bread and cigarettes on the streets of some cities.

While these organized crime groups can be thought of as filling a governance role in the absence of state enforcement (Skaperdas 2001), in the Italian case there is also a large ‘pro-active’ element in which organized crime is not simply satisfied with occupying areas where the state is absent or weak. It actively seeks to expand its reach and power. The Italian organized crime families are just as comfortable as the Latin American cartels in resorting to the idea of *plomo o plata* and they apply enormous pressure on the very fabric of economic life in the areas they control.

In Italy, the perception of the current state of affairs is rather bleak. The European Commission (2014) anti-corruption report reported some data on how Italians perceive their country’s corruption problem (see Figure 1).

**Figure 6.1** Perception of Corruption in Italy



External actors, like the European Union and Transparency International also feel that the country has a weak record in tackling the issue. According to the latest Transparency International Italy assessment (Transparency International Italy 2012, 1) “Italy’s National Integrity System is far from robust, with an average NIS score of 55.04%.<sup>19</sup> Corruption is able to flourish almost everywhere, as state institutions enjoy considerable autonomy, which does not correspond to standards of accountability and integrity.”

The cost of corruption is one of the major focuses in the fight against this phenomenon. While these costs are very difficult to assess in any system, no appreciable efforts have been made to fully measure them in the Italian case.<sup>20</sup> Whatever the correct figure, many billions of Euros are diverted from the regular economic flow every year because of these practices.

In practice corruptive practices affect more than just financial costs, they affect the way in which individuals relate to each other and the very way in which society operates.

For example, in cases where local entrepreneurs choose to resist pressures to pay protection money there is not simply the chance of their business being targeted perhaps by firebombs, or by the owners themselves having to fear for their lives.

<sup>19</sup> The scores range from 0 (lowest or worst) to 100 (highest or best).

<sup>20</sup> Even the often-cited €60B figure, which appeared in the media and the EU reports is guess based on a 2004 World Bank report that guesstimated worldwide corruption at 3% of GDP. The figure for Italy was raised to about 4% but there is no real scientific/hard data to support or disprove it.



The economic relations of the owners with banks and suppliers change too. If there is the rather concrete chance that a person will be assassinated because of their actions in the near future, that person will become a ‘bad risk’ if they require a loan or if they ask a supplier for an extension in the payment schedule.

To summarize briefly, corruption in Italy represents a sometimes deeply entrenched behavior that is not solely ascribable to the public sector. It is much more of ‘a plague of both houses’ with the private sector being often just as involved and with both at times being connected to organized crime, as with the massive economic interests that surround the illegal disposing of toxic waste in Italy. The so-called ‘terra dei fuochi’ in the Campania region (Legambiente 2003), a triangle where cancer rates linked to heavy metals and toxic chemicals had reached extremely concerning levels already a decade ago (Senior and Mazza 2004) and even in the face of levels of dioxin 10,000 times higher than the Italian average the public administration and local and central political authorities seem impotent in the face of the powerful crime families (Iovene and Lombardi 2008) that control this traffic throughout the country. As we shall see later in the chapter these activities are not stand-alone ones, but are hinged on a powerful system of rules, a system of governance that embeds them in common practices and reinforces their grip on the very fabric of the Italian administrative and civil life.

## 6.8 Three Classic Explanations of the Italian Polity’s Shortcomings

It is often the case that the political system has a strong effect on the way in which illegal activity is perceived. With regards to the specific situation that we find in Italy, it should be noted that the Italian political system between the end of World War II and the so-called fall of the First Republic in the 1990s, morphed for a variety of endogenous and exogenous reasons into what a variety of Italian political scientists variously defined as a uniquely Italian case. Whether it was Giorgio Galli’s (1966) notion of imperfect bi-polarism and its attendant process of ‘blocked democracy,’ or Giovanni Sartori’s idea of polarized pluralism (Sartori 1982, 1984), or Paolo Farneti’s concept of centripetal pluralism (Farneti 1983), they all pointed towards a lack of real political alternation in the Italian governing apparatus. With the institutional marginalization of the Italian Communist Party at the national level,<sup>21</sup> the normal alternation of right and left that is the core value and fundamental resource of liberal democracies (Bedeschi 2013, 337–338). Bedeschi reminds us that “[i]n the Italy of the First Republic all this was missing, with the gravest of consequences: one party, the Christian Democrats, and some other parties allied with them, were ‘condemned’ to govern. From this came the immovability of the political class, of its *grand commis*, of its ‘experts,’ of its technicians and so forth. From this also came the continued increase of corruption, thanks to that immovability” (Bedeschi 2013, 338).<sup>22</sup>

The cultural milieu in which the mass parties of Italy (and large swatches of its intellectual and economic elites) developed their relationship with the polity remained largely untouched by the principles of liberal capitalist democracy that were dominant in the West during the 20<sup>th</sup> Century.

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<sup>21</sup> The Italian Communist Party (*Partito Comunista Italiano*) was effectively excluded from participating in any national government and it was only its successor, the Democratic Party of the Left (*Partito Democratico della Sinistra*) that was able to govern in the 1990s. However, while excluded from the centre, the party had important local and regional successes throughout the country especially in historically ‘red’ regions like Liguria, Tuscany, and Emilia Romagna. This is not to say that there was no contact or common set of principles among Italian parties in the 50 years during which this system survived. However, it is clear that the system itself created a set of very dysfunctional responses, compared to classic capitalist liberal democracies.

<sup>22</sup> All translations of Bedeschi here are my own.

Rooted in a blocked democracy, which favored extra-parliamentary rhetoric and praxis, Italian political activity rejected free markets in favor of heavily subsidized and (poorly) planned economic approaches, corporatism and an elephantine but inefficient public sector. Furthermore, as the lack of true political alternatives was overlaid on an inefficient bureaucratic system and on a 'dependent' financial and industrial system that saw in the central government an economic and political enabler, many Italians began to adjust to these systemic dysfunctions by falling back into the familiar historical patterns of clientelism and corruption.

In a system that lacked effective and consistent ways to punish political failure and corruption, or to reward political efficiency and honesty, entire economic and social strata resorted to the very Italic *arte dell'arrangiarsi*: the art of muddling through. In practice, this meant that the relationship between parties and voters was not a modern one, centered on the aggregation of political values and on the principles of exit, voice and loyalty (Hirschman 1970), but rather on an almost pre-modern idea of 'party as clan' where party membership opened doors to jobs, resources and positions from which non-members were excluded. Meritocracy was one of the earliest victims of the Italian model both because in many ways the Italian welfare state was an employer of last resort, and because in a system of clientele and patronage the quality of the output plays second fiddle to 'membership' in the right group. Bedeschi (2013, 343) puts it succinctly when he notes that "[t]he image of the Country emerging in 1992 was that of a society, which was largely assisted, corporatist, immobile, and corrupt." While the fall of the First Republic coincides with the Mani Pulite scandal and inaugurates a period of true left-right alternation in the Italian national political system, it did not signify the end of corrupt practices and clientelism.

On the one hand, the lack of political alternation was not the only cause of corruption and political immobility. Deeper and more complex causes are embedded in the Italian case. The lack of an effective capacity on the part of the repressive apparatuses of state to confront and defeat organized crime, the continued issues with fiscal elusion and evasion perpetrated by a variety of economic subjects, the only partial responsabilization of the political and administrative classes in terms of the efficient and honest administration of the public purse, and the paternalist approach that many Italian administrators and politicians continue to apply to their jobs limit the space for a true 'cultural' shift in the field. The end of the previous 'blocked' political system did not magically eliminate the other causes of what many dubbed a systemic corruption practices.

In this sense, it pays to consider the statement by Sabino Cassese according to whom we should focus on "the loss of relevance by the bureaucracy as part of the political body ... The bureaucracy that perceives itself excluded from the political body is pushed from an internal force to reacquire the lost spaces through corruption, which augments its power and personal income" (Cassese 1999, 183). Whether Cassese's argument is valid as it stands or in conjunction with the socio-historical elements that we have put forward above, it still speaks to a complex and ingrained problem for the Italian jurists, politicians and enforcement officers who aim to tackle the issue.

In the next section we explore some of the ideas around the 'systemic' nature of Italian corruption.

## 6.9 Systemic Corruption in Italy

Given what we noted above one could well see how in Italy the concept of *corruzione ambientale* (environmental corruption) could be understood as a 'normal' context for political and economic activity.

This led overtime to the emergence of a culture where the expectation of malfeasance and dishonesty is so embedded that it is assumed as business-as-usual and therefore under-reported or – in some extreme cases – seen as a positive trait of those who are street-smart and/or powerful. In the next two subsections we provide some example on how organized crime and political actors have created a system within the system through which they have corrupted the competition for scarce resources that takes place for example within the public procurement system. While the trend, between 2000 and 2007, has seen less sentences and arrests for the crimes of corruption, since 2008 these have picked up again (Di Cristina 2012, 179). Here we wish to argue that both organized crime and political/administrative corruption have devised their (sometimes collusive) set of rules for the sophisticated management of corrupt practices in the country.

## 6.10 Corruption and Organized Crime

Illegal markets, such are the ones that involve corruption, are unstable and naturally prone to high transaction costs. In the case of criminal organizations, the goal is to achieve a monopolistic control of certain sectors so to be able to extract financial and other benefits for themselves and other actors that operate within illegal markets. In this context, corruption for these organizations is not only a means to an end in market governance (Schelling 1984), or a way to obtain a competitive edge (Maltz 1986), but especially a necessary element in the long-term relation between these criminal structures and members of political and administrative units (Newell 2005). Now, the durability of these networks is not simply a result of established relationships, but also and quite importantly in illegal markets, a premise to the establishment of a system of governance for corrupt practices. In a market where transactions are opaque and lack competition, exit costs are high and partners are generally not very reliable because of both exogenous and endogenous pressures, some kind of regulatory mechanism that will limit these negative effects is necessary. Hence, organized crime's at times very successful efforts to develop a system of governance in which its representatives often play the role of intermediaries between the administrators and politicians on the one side and the private sector agents on the other. It is on these systems of governance that the success of these organizations is based.

Organized crime in Italy has a very broad economic base. Recent estimates have placed their annual income with a low of €17.7B and a high of €33.7B per year. On average the amount is placed at about 1.7% of Italian GDP (Transcrime 2013). There is no doubt that corruption is one of the main tools in the hands of criminals, especially so for organized crime. In a recent interview, Mr. Franco Roberti, the judge in charge of the National Anti-Mafia Directorate noted that there is a “close connection between organized crime, corruption, money laundering ... Corruption is fully part of the method and the essence of the mafia's activity. The Mafioso does not immediately fire a gun, before acting he bribes” (Lipari 2013). At the same time, because of its capacity to directly involve the public official in a relationship of involvement and silence, corruption remains the main weapon that organized crime has against the state (Violante 1994).

The relationship between the state and organized crime, furthermore, is not necessarily one of competition alone. The late judge Paolo Borsellino noted “Politics e mafia are two powers that survive on the control of the same territory: they either are in conflict with one another or they are find an agreement” (CPAMI 2006, 139). Organized crime, especially in areas where the state is weak establishes a true system of governance where corruption is a clear part of the exchange process (Martone 2013). In some cases, as with the management of waste products in the Campania region, the process that was uncovered by criminal investigations highlighted what can only be described as a capillary control of the whole cycle of collection and (illegal) disposal of waste products over a large territory that spanned 20 municipalities.

The project involved the penetration of criminal subjects within multiple local administrations, the involvement of a Member of Parliament, the creation of a company that would practically function as the cover for the illegal activity and the establishment of both a complex network and of a system of governance upon which the whole process would be based (Martone 2013). Martone (2013, 106) argues that the premises to understand the development of this activity in Campania must be found in: 1) the weak regulative capacity of local administrations, 2) the progressive establishment of illegal activities in the public-private network that took care of waste management in the region, and finally 3) the particular ‘entrepreneurial’ bent of the local Camorra.

The system of waste management in Italy, based as it is on the privatization of services and their delivery at the local level is in areas like Campania, where often we find a historical nexus between local administrative and political elites and organized crime, almost an open invitation to the development of corrupt practices.

Local stakeholders are easily able to create monopolistic positions where, at least partially shielded by willing local administrators and using political patronage at both the local and sometimes national level, organized crime is able to develop a fully integrated network reliant of both local support and intimidation and providing a strong governance which includes the redistribution of very large profits within the members of the network but also massive environmental and health costs.

The connection between organized crime and the political elites was not always easy. Checks needed to be run and the intermediaries who offered themselves needed to be vetted. Below we can see a ‘pizzino’ (a small note) dated October 01, 1997 that Bernardo Provenzano addressed to another Mafioso, Salvatore Genovese: Now, you inform me that you have a well-ranked Political contact who would enable the handling of many and big jobs, and before going ahead you would like to know what I think about it: But, since I don’t know him I cannot tell anything, I should know the names? And how they are connected? Because nowadays you cannot trust anyone. Could they be conmen? Could they be cops? Could they be some double agents? And could they be amateurs? And they could be big planners, but is one does not know the way he must take he cannot start walking, same as I cannot tell you anything.

The presence of a political or administrative referent is obviously critical because it signifies access to a position of ‘political rent’ through which access to scarce resources such as public contracts may be skewed in favor of the criminal organization. However, the other partners are also necessary to the effective functioning of the system: without a network of private companies it would be impossible to extract the actual resources from the contracts and without the intermediary and enforcement role of organized crime it would become more costly to maintain a process where delayed payments are common and that is inherently risky. Hence, often along with corruptive practices we find collusive ones.

Collusion becomes a very important part of the process when the organization of a complex system of procurement is put in place (Vannucci 2006). Oftentimes multiple actors on each of the three sides are involved and very convoluted activities are required.<sup>23</sup> In Sicily a qualitative shift takes place in the late 1980s with the arrival on the scene of Angelo Siino, who was dubbed the Minister of Public Works for *Cosa Nostra*, a construction businessman who was co-opted into the job by Giovanni Brusca. With the waning of some established centers of power on the island – the arrest of Vito Ciancimino and the emergence of the Corleonese family as the dominant group – new spaces and new methods emerged.

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<sup>23</sup> For a complete analysis see Vannucci (2006).

The so-called 'Siino Method' became the go to process for the mafia in regulating the lucrative market of state procurement, especially construction. Starting from an already existing but rough model, Siino perfected his approach into a machine that extracts a 4.5% surplus from a very large percentage of all procurement contracts.

The crime families and the participating politicians each obtain 2% of the contract and 0.5% is destined to the control agencies. The system is premised on corrupt and collusive practices from all who are involved. The private companies rotate as sub-contractors so that none who accepts collusion is left out and the amounts of the bids are agreed upon in a cartel-like fashion so that minimal price reductions are often enough to secure a bid.

Detailed information on bids and lists of bidders is obtained from the administrators and politicians. The considerable suasion and intimidation capacity of the mafia was thrown in full behind an effort to modify the existing system of cartels that some companies had developed before *Cosa Nostra* moved in. Rapidly the system based on the Siino Method expands and – while not the unique referent in Sicily for all of the mafia families, Siino becomes a critical part in the development of this approach to state procurement.

The success of the method even leads to some changes in the system of governance of the mafia: from strictly territorial approaches we see a more functional structuration of criminal activity in this area. A cooperative 'table' is set up with important representatives of the organized crime families and with select members of the largest private companies that have accepted to operate in collusion with them.

The excessive centralization of the system turned out to be its downfall. Siino himself began cooperating with the magistrates after his arrest and the 'table' approach has disappeared in favor of a more decentralized one, with an increasingly 'softer' presence of the large mafia families and a partial return to the older territorial model. As a partial result perhaps the balance between mafia exponents and politicians has shifted in favor of the latter since (Vannucci 2006). While this was just a brief recounting of a slice of the corruption that organized crime has fostered in Italy, it presents a clear image of the importance for its continued efficacy to maintain a strong system of governance. It is exactly at this juncture that the state should aim to unhinge the process.

## 6.11 Political Corruption

While for most readers the Mani Pulite inquest and the subsequent end of the political structures and agreements that held sway over much of Italian life since the end of World War 2 mark the most evident sign of the Tangentopoli that shook the system of this nation, some early signs had come about a decade before.

It all started in the city of Turin: one of vertices of the so-called 'industrial triangle' of northern Italy (the others being Milan and the port city of Genoa). In early 1983, a local industrialist denounces a system of bribes and corruption that is in place within the local public administration. The communist Mayor of the city went on to denounce the Vice-Mayor and a number of other members of the city's elite for corruption. While the subsequent trial led to short sentences for all involved, the faccendiere Adriano Zampini, who was in charge of connecting the dots in a vast network of illegal activities that purportedly linked political, administrative and economic interests, was later to comment on the way in which corruption was embedded in everyday activities.

I never found any kind of revulsion on anybody's part for my mentioning bribes; on the contrary, it seemed quite evident to me that my interlocutors were expecting just that from me. In the environment in which I moved the bribe was institutionalized. ... It was a behavior that was clearly impressed in the minds of those who were interested. ... The politicians I was dealing with were people who had understood that to keep the city moving forward it was necessary to overcome certain barriers and do certain things: therefore it was necessary to shelve the ideologies, Marx or whomever else, and do stuff; and if something could be pocketed, so much the better (ANSA, 22 January 1985).<sup>24</sup>

Zampini was to go on and publish a book by the title *I the Corruptor* in the wake of the Milanese tangentopoli (Zampini 1993). The Turin inquest was led by a local District Attorney, Bruno Caccia, who had been in the past in the front line against both terrorism and organized crime. Just a few months after starting this inquest he was gunned down by what were later revealed to be 'Ndrangheta assassins. While it was unclear whether a direct connection existed between his new anti-corruption activity and the murder many speculated that this could have been the case.

### **6.12 Mani Pulite: When the Dominos start Falling**

While the initial rumbling of Mani Pulite could be traced back to the early 1980s, not much changed in almost a decade: members of the Italian political and business classes continued to forge illegal relations exploiting a cultural milieu where one of the characteristics of power was the ability to extract these benefits from their positional power. Like the prebends of the Middle Ages, these payments functioned as a rent-seeking approach, that imposed higher costs than normal lobbying (Lambsdorff 2002).

Much the same corrupt nexus between politics and business was be highlighted a decade later in an interview to Italian journalist Giorgio Bocca by the ex-council member of the city of Milan, Mr. De Angelis: I believe that they were not any longer aware that they were stealing; in their own way they lived in a world where bribes functioned like a precision watch. At the upper levels the big deals were organized and the party pretended to ignore them, at the lower levels were the small thefts and the management shut their eyes and ears so that a scandal would not break out and the consensus would not be spoiled. None wondered about the future, none asked themselves where are we going to end up, everyone reassured each other by saying: we are allowed to do this (Bocca 1993, 127).

The Milan Mani Pulite operation begins February 17, 1992 when the judges in the city obtain an arrest warrant for an important local member of the Italian Socialist Party: Mr. Mario Chiesa. At the time, Chiesa was the manager of the Pio Albergo Trivulzio, a hospice for the elderly in the city. A businessman, Mr. Luca Magni who was contracted to deliver cleaning services to the hospice, went to the Milan police department and helped set up the sting operation that would lead to the arrest of Mr. Chiesa. Initially described as an 'isolated rogue' by then Prime Minister Bettino Craxi, Chiesa turned out to be the tip of a large iceberg.

Much of the focus of the investigations aimed at the illegal financing that the parties drew from the system of corruption they had allowed to flourish. Public procurement contracts were allocated through a capillary system of bribes that were then redistributed partially to the intermediaries who made the deals happen and partially to the parties that utilized the money to finance their operations. By some estimates, the Italian party system siphoned off billions of Euros through this system (Turani and Tasso 1992).

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<sup>24</sup> All translations of Zampini's interview are my own.

As the public opinion and the electorate firmly lined up behind the judges, the political system of the First Republic attempted both to discredit the investigators and to undermine the potential for criminal prosecution. Regarding the latter, the most noticeable effort was the so-called Conso Decree, from the name of the Minister of Justice who proposed it. A newly added section in the decree would have retroactively expunged the crime of illegal financing as far as political parties were concerned. After the decree was passed by Parliament, on the wave of a massive popular outcry, the President of the Republic - for the very first time in the history of the Italian Republic - refused to countersign the decree, effectively impeding its coming into law.

Within 18 months of the beginning of the inquest, the Italian political system is shaken to its roots by the activity of the judges: 151 Members of Parliament are named as persons of interest.

**Table 6.1** Members of Parliament Named as Person of Interest as of July 1993

Party <sup>25</sup>	MPs named as Persons of Interest	Total Number of Judicial Procedures
DC	74	168
PSI	49	119
PSDI	9	17
PRI	8	1
PDS	5	7
PLI	4	13
RIF. COM.	1	2
LEGA NORD	1	1
Total	151	328

As the inquest spread, the very apex of Italian politics and administration was affected. From Prime Ministers like Bettino Craxi, to high-ranking officials like Duilio Bracciolini, the former director general of the Italian National Pharmaceutical Service, who was sentenced for accepting bribes from a host of actors, mayors of small and large cities, joined the more or less high placed personnel who had partaken of the pool of money available through the mishandled public procurement system. While the numbers are unclear even today, in 2000 an estimate noted that 2,565 persons had been named as persons of interest in the various branches of the *Mani Pulite* inquest. However, relatively few of them remained in jail then (Ferrarella 2000) due to both a slow-down in the activities of the magistrates, and the relatively short sentences that were imposed.

It was often the case for the Italian political class to be pictured as inefficient and inconsistent. However, it seems that in the matter of establishing a corruption network these organizational shortcomings vanished. In his book, written on the heels of the *Mani Pulite* inquest, Turani and Sasso note that:

Nothing escaped the politicians. And it is a bit curious. Our political class is not a very accurate, methodic or scientific one. Usually it is casual, nosy, lunatic, abstract and windbaggy. However, in the case of bribes it has demonstrated a considerable organizational talent. Nothing was left to chance. Bribes were demanded in all occasions in which the parties had some title to demand them.

<sup>25</sup> The parties' abbreviations are: Democrazia Cristiana (DC), Partito Socialista Italiano (PSI), Partito Social Democratico Italiano (PSDI), Partito Repubblicano Italiano (PRI), Partito Democratico della Sinistra (PDS), Partito Liberale Italiano (PLI), Rifondazione Comunista (RIF. COM),

This means every time the public administration was involved ... and with previous agreements among the various parties, so to arrive at a millimetrically exact division of the quotas. From this point of view, it is possible that Italian politics may be, after the mafia, camorra, and the 'ndraneta, the fourth criminal organization in the country (Turani and Sasso 1992, 10).

Whether the statements by Turani and Sasso still hold today is difficult to establish. What is certain is that large procurement contracts like the one for the Milan Expo of 2015 are still attracting corruption. Old figures from the Mani Pulite inquest were thrown back into the limelight of corruption when they were arrested in the early days of May 2014 with the accusation of having diverted millions of Euros to fix large public contracts for the upcoming Expo. On the heels of the new wave of arrests, the Italian Premier, Matteo Renzi, assigned Mr. Cantone, the head of the national anti-corruption authority, to supervise the Expo (NNAA 2015). Effectively, this is the equivalent of naming a commissar for the continuation of the project.

### 6.13 Conclusions

If the case of Italy is truly rooted, at least in some part, in the cultural milieu that through its deep historical roots, the lack of political alternation of the First Republic, in the existence of a (or various) system(s) of governance of corrupt practices, and in the deep distortions engendered by the elephantine and inefficient welfare capitalism, and the heavy hand of organized crime, then the answers to its corruptive practices must address all of these facets.

The existence of environmental corruption and both the cultural and organizational catalysts for corruption will require more than just preventive and punitive measures. It must pass through a change in the culture and structures of the public administration but should also look at more creative approaches like the idea of the 'invisible foot' (Lambsdorff 2007). This means at the same time that the older idea of the bilateral relationship between corrupt and corruptor should be replaced by the trilateral one corrupt-intermediary-corruptor. Simpler and more effective design of contractual law is also an important tool in the fight against these practices (Di Cristina 2012).

Ultimately, though, the most important approach will be one that attacks the diffused cultural and historical acceptability of corrupt and 'grey' practices that has helped foster and support the culture of illegality, which acts as a growing medium for the corrupt both within the public administration and outside it.

The critical factor that stands as the most notable challenge to the successful control of corruption in Italy is the strength of the system of governance that regulates its activity. As we noted above the markets for illegal practices, including corruption, benefits from regulatory mechanisms that reduce the transaction costs that are inherently present in this type of activity. The long term presence of tacit rules and patterns of behavior has led to a fully entrenched system of rules that regulate the socio-economic and political activities of complex networks of corruptors, intermediaries and corrupt agents. The real success of the anti-corruption effort will have to be measured on the basis of its capacity to unhinge the rules of this governance.

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