

Does Globalization Reduce Corruption? Some Political Consequences of Economic Integration¹

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Abstract

This paper examines the collapse of the Italian postwar party system in 1992 as an instance of the transformation of a political regime based heavily on corruption to one in which corruption appears no longer to be central. The collapse was catalyzed by a wave of judicial investigations implicating between a third and half of the Christian Democratic and Socialist Party members of the lower legislative house in alleged wrongdoing, particularly wrongdoing involving abuse of office and political corruption. The investigations were in turn triggered by the confessions of businessmen who had been paying bribes in exchange for public works contracts. I argue that these “spontaneous” confessions reflect the breakdown of a previously-existing collusive cartel among firms producing products for sale to the government. I assemble some preliminary evidence to document that cartel arrangements among firms broke down due to a slump in demand, which in this case means a decline in government infrastructure investment. Government spending, finally, appears to have been reined in as Italian political authorities began making efforts to meet externally (i.e. European) imposed standards on the budget deficit.

I compare evidence supporting this interpretation with a second that examines the exposed (rather than the sheltered) sector of the Italian economy as potentially producing an anti-corruption, good government reformist political coalition. Finally, I discuss some comparative implications.

This is a story of how a collection of short-sighted, profit-mongering capitalists in the sheltered sectors of Italian small industry brought down one of the world's stablest, most long-lived dominant-party democracies, one presided over by a centrist coalition sympathetic to the interests of business but that relied in part on monies extracted from illegal gains. By doing so, they ushered in an era of government alternation, an internationally more open and more competitive economic environment, and a political regime no longer largely dependent on corrupt transactions for campaign financing. It may go without saying that such consequences were unintended.

In what follows, I examine the collapse of Italy's postwar party system, a collapse marked by a series of events that occurred between spring 1992 and the end of 1993. The argument I make involves a complex causal chain. I contend that the preexisting party system (and governing coalition) had become dependent to function on monies received illegally, and that one of if not the most important source of these monies lay with kickbacks that politicians extracted for public works contracts. The system collapsed when businessmen confessed instead of continuing to pay bribes, because their confessions implicated so many members of the political elite that the entire "political class" that governed was publicly discredited within a matter of months. I assemble preliminary qualitative and quantitative evidence to show that businessmen confessed when a demand slump made maintenance of the collusive cartels organized to pay kickbacks economically less desirable. I suggest that the demand slump was itself a product of government policy in response to increased international pressures to reduce the deficit. The demand slump that affected bribes-paying businesses involved a decline in public works spending. How this decline may have been organized strategically by government officials is beyond the scope of the present analysis.

The current paper is a first cut at identifying the micromechanisms that shifted the Italian political system from heavy reliance on political corruption to substantially less. The paper is exploratory. It seeks to develop a theoretically coherent argument while assessing the extent to which data are potentially available to test parts of that argument.¹ The paper uses a variety of research instruments, including analysis of primary and secondary documents, interviews and field work, and some preliminary quantitative data

¹Data collection issues have proven unusually difficult for this study.

analysis. The main rationale for presenting what is in effect a case study is the absence of literature documenting how political regimes shift suddenly from reliance on corrupt transactions to substantially less.

The paper proceeds in seven sections. Section 1 reviews aspects of the collapse of the postwar Italian party system. The second provides a summary of how the preexisting party and political systems operated. Section 3 offers information about how cartels of firms were organized to pay bribes for public works contracts in Italy prior to their exposure in the early 1990s. The next section outlines the logic of the underlying theory used in the analysis. Section 5 presents empirical evidence for the argument that an exogenously-induced collapse of some of these cartels catalyzed the collapse of the Italian party system by giving businessmen an incentive to confess their crimes. Section 6 examines the evidence in favor of an alternative hypothesis regarding businesses in the exposed sectors. Section 7, finally, offers an initial comparative framing of the analysis presented, one emphasizing the unique aspects of the Italian case of party system collapse.

1 The End of The First Republic

The postwar Italian party system, which collapsed suddenly and over a period of less than a year in 1992 and 1993, had long been known as one of the democratic world's most stable. Despite the apparent ideological polarization of its constituent parties — which ranged from communists on the left to neo-fascists and monarchists on the right — postwar electoral behavior was largely predictable and, following the new republic's first general elections held in 1948, extremely stable. Levels of electoral volatility were low, and differences of even a percent or two in the share received by a party from one election to the next were considered large.

The governments of the postwar era included at various times five center and center-left parties: Italian Christian Democracy (DC), the Italian Republican Party (PRI), the Italian Liberal Party (PLI), the Italian Social Democratic Party (PSDI), and the Italian Socialist Party (PSI). The DC was the linchpin of the system, and was included in every government between 1948 and 1994, usually holding the office of prime minister. The typical government was a surplus majority coalition of four and later five parties. The

Table 1: Electoral Results to the Italian Chamber of Deputies, Selected Major Parties, First Twelve Postwar Legislatures (percentages)

<i>party</i>	1948	1953	1958	1963	1968	1972	1976	1979	1983	1987	1992	1994
DC	48.5 ^a	40.1	42.3	38.3	39.1	38.7	38.7	38.3	32.9	34.3	29.7	5.2 ^b
PCI	31.0	22.6	22.7	25.3	26.9	27.1	34.4	30.4	29.9	26.6	21.7 ^c	17.3
PSI	— ^a	12.7	14.2	13.8	14.5 ^d	9.6	9.6	9.8	11.4	14.3	13.6	2.2

Notes:

^a In 1948, the PCI and PSI ran on a combined list; the entry under PCI reflects this.

^bIn 1994, the DC ran as the Partito Popolare Italiano (PPI).

^cThe 1992 entry under PCI is the combined percentage of votes won by the Democratic Party of the Left (PDS) and Rifondazione Comunista (RC).

^d In 1968, the PSI ran on a combined list with the PSDI.

Sources: Compiled from (Hine 1993, Table 3.1, pp. 71–76) and (D’Alimonte and Bartolini 1997, Table 1, p. 112).

political spectrum extended beyond the governing parties in both the left and rightward directions. The far-right was occupied by the Italian Social Movement (MSI), which received a maximum of 8.7 percent of the national vote in the 1972 elections. The main opposition party, finally, consisted of the Italian Communist Party (PCI), the strongest communist party outside the eastern bloc nations. In 1992, the X Legislature was dominated by these established² parties, which together held just over 80 percent of the total votes. Table 1 presents electoral results from 1948 through 1994 for the three largest Italian political parties to the lower house, the Chamber of Deputies.

The swiftness and totality of the collapse of the postwar party system is indicated in part by the fact that after the 1994 general elections, none of the traditional postwar parties controlled any parliamentary seats. Some, admittedly, had undergone only changes of name — the PCI to the Party of the Democratic Left and the MSI to the National Alliance (AN). Most, however, had simply vanished. The PSI, which had received over 13 percent of the vote in 1992, received a mere 2 percent of votes in 1994, thereby failing to clear the new 4 percent hurdle required for parliamentary representation. The Christian Democrats, long Italy’s dominant party, had changed its name to the Italian Popular Party (PPI) but even so won only 5 percent of seats in

²In 1991, the PCI had renamed itself the Party of the Democratic Left (PDS) and experienced a split, with a small leftwing group leaving to establish Communist Refoundation (RC).

the lower house. The small traditional parties of the center, which had helped govern the country for four decades, were simply wiped out (Sani 1995).

Nor were these changes merely nominal. More than 70 percent of those elected in 1994 had never served before, compared with the previous parliament in which one third of deputies had already served three or more terms (Katz and Ignazi 1996, p. 22). The 1994 elections thus mark a clear transition to a post-fascist, and almost entirely inexperienced political class (Lanza 1995, pp. 220ff). The two largest parties that emerged in those election — Forza Italia and the Northern League — were both new. They proved the main winners, securing 18.6 and 15.7 percent of lower house seats, respectively. Forza Italia, organized by the Italian businessman Silvio Berlusconi, had only been formally established a few months before the elections, and the Northern League had existed as such for only one prior parliamentary election. Total electoral volatility in 1994 has been calculated as 37 percent (Katz 1996, p. 47), representing what Italian electoral specialists have characterized as a massive vote shift (Sani 1995, p. 60).

The elections that took place in 1994 used an electoral system novel in the Italian context. Until then, every postwar election had used a pure form of proportional representation (PR), which used party lists in combination with elective preference votes for individual candidates off the party lists.³ In 1994, the system used was a mixed majoritarian-PR system, with three-quarters of parliamentary seats elected through single-member districts and the remainder elected off party lists in multimember districts, with no preference votes. Reform of the electoral system had occurred following an 18 April 1993 referendum, which although nominally concerned only with the Senate, received such an overwhelming show of public support — turnout was 77 percent, and the proportion of favorable votes was 80 percent (Corbetta and Parisi 1995) — that the legislature was pressured into undertaking reform. A new electoral law was approved by the legislature in August 1993, establishing a mixed system.

³Electors could choose to cast up to three (in large districts, four) preference votes. In 1991, a public referendum forced the number of allowable preference votes to one. It is worth noting that turnout for the referendum in question was 62 percent and the approval rate an astonishing 96 percent, attesting to the extent to which the Italian public was fed up with the existing political elite even prior to the corruption investigations studied here. Preference votes were abolished entirely in the subsequent reform enacted to the electoral system that was first used in the general elections of 1994.

While this change makes the collapse of the postwar party system unsurprising, it is inadequate to account for it. First, a large part of the demise of the party system had already occurred prior to the 1994 elections, in the sense that parties had already undergone name changes and major reorganization or dissolution. Second, the change of the electoral system is itself endogenous to the process of party system change, as its supporters (and opponents) knew full well. It was, in fact, a direct outgrowth of massive public revulsion with the established parties, above all the established parties of government. Public repudiation of the existing party system had preceded and then been fueled by the wave of judicial investigations and accusations into political corruption that began in May 1992. It was the revelation of systemic, massive and coordinated corruption involving large sums of money and virtually the entire established political elite that finally brought down the postwar party system. Although most of those accused were successfully protected from prosecution, as I document below, by the time a third of elected legislators came to be publicly implicated in wrongdoing, it proved impossible to replace them with others who were not implicated, thereby gutting the established parties of credible national personnel.

The new party system that emerged in 1994 appears substantially less dependent on illegally-gotten gains than its predecessor, although there are no reliable measures to show this definitively. The incentives for corruption by individual politicians are much reduced with the abolition of the preference vote, regulations affecting the public contracting system have been improved, and the general impression of the political system that emerges in the press and daily life is that it is now considerably cleaner. With literally thousands of indictments for political corruption occurring since 1992, hundreds of which have been directed at elected national political representatives, it is difficult to imagine that the levels of corrupt activity have not declined very considerably. While the Berlusconi government has been repeatedly implicated in corrupt activities, the party system no longer appears dependent on kickbacks as the main source of campaign financing. The main empirical question pursued below is how the judiciary, which had doggedly been trying to uncover political corruption for well over a decade, finally succeeded in doing so in 1992.

2 The Preexisting Equilibrium: The Personal Vote, Patronage Politics, and Corruption

Elsewhere I have detailed the political equilibrium that obtained in postwar Italy (Golden 2002). This system displayed the characteristic that politicians systematically used — and misused — the resources of government to enhance their incumbency advantage. For instance, legislation was heavily oriented to pork barrel allocations directed at specific, named clientele rather than general redistributive measures (Predieri 1963; Di Palma 1977), thereby reinforcing its vote-getting aspects. Allocations were patronage-oriented, meaning they were aimed specifically at attracting and retaining groups of voters. This was true, moreover, not only for transfers but even for legislation regulating institutional design and performance, which came increasingly to reflect patronage concerns. For instance, the unusually large Italian public sector served as an integral part of the postwar governments' patronage machine.

Over time this equilibrium entailed another element: political corruption. Political corruption was an important component in the reigning equilibrium because the kickbacks that politicians received — often as part of the process of bidding out public works contracts — funded their political campaigns, thereby reinforcing the electoral advantages of those already seated in parliament. Bureaucratic corruption was important as well, in part because by constructing a system that permitted it, politicians ensured the continued political loyalty of the bureaucrats whose illegal behavior they tolerated. But bureaucratic corruption appears to have been otherwise largely autonomous from the political system, with bureaucrats pocketing bribes personally or passing them up to their superiors. Political corruption, by contrast, came to comprise a central characteristic of the entire political system because, thanks to it, incumbency advantage acquired an unusual salience. While it appears to be the case even in the United States that legislators accused of corruption typically achieve reelection (Peters and Welch 1980), in Italy, an accusation of corruption apparently provided an electoral *advantage* by the mid-1970s.⁴

The system of corruption that was established in postwar Italy — no one knows exactly when, of course, since it was by definition secret, but some el-

⁴I am analyzing data to verify this. In the meantime, see (Ricolfi 1993).

ements seem to have been put into place even in the 1950s — involved three sets of actors: elected political officials, appointed bureaucrats, and businessmen. Political officials, usually those elected on the local level, extracted the bribes that businessmen paid in exchange for government contracts.⁵ The processes allowing extraction were often managed by bureaucrats, typically acting in their capacities as party secretaries.⁶ Monies collected locally for public works contracts were divided up and portions sent to Rome to finance national party leaders and their factions. While the corruption scandals that rocked the country between 1992 and 1994, originating first from Milan, were local in their initial foci, they thus ultimately extended up to the highest offices of the national government, implicating former prime ministers as well as those beneath them. Although the overall system appears to have involved multiple, independent groups of political authorities operating at different levels of government, and in that sense was not centrally coordinated, the cover-ups required to perpetuate it *were* nationally orchestrated. Between 1948 and 1987, for instance, only about a quarter of judicial requests to remove the immunity of parliamentarians charged with wrongdoing were conceded.⁷ (For details on the data, see the Appendix.) That parliament so overwhelmingly and repeatedly fended off investigations of its own members suggests that political corruption was probably essential, not incidental, to the workings of the political system.

3 Public Procurement and the Cartel Organization of Firms

Politicians confronted two sorts of firms in collecting kickbacks: the unorganized individual firm, and groups of firms organized into cartels, which coordinated the prices they offered for public works contracts. I focus on

⁵Illegal transactions of other sorts also occurred, sometimes involving extremely large sums of money, but kickbacks for public works contracts seems to have constituted the routinized heart of the system.

⁶I use the term bureaucrat imprecisely here. In Italy, many offices were held by political appointees rather than elected officials. In some sense, these men were bureaucrats; i.e. they were appointed, not elected, and entrusted with managing parts of government. But they were often not bureaucrats in the sense of receiving their appointments on the basis of meritocratic criteria.

⁷Judicial investigations into allegations of corruption or other charges of malfeasance required removing immunity for members of parliament, which in turn required approval by a simple majority of those present in the appropriate chamber.

the latter because the relevant analytic problems arise most clearly in cartel situations.

Nothing systematic is known of the organization of or arrangements characterizing the cartels operating in sectors receiving public works contracts that existed in Italy prior to Tangentopoli.⁸ These were highly variable both by sector and by locality. In this section, I briefly note some important elements of the system then in effect for contracting public works, and outline some analytic points about cartel organization.

In Italy, prior to the adoption of new legislation (the Merloni laws) in the 1990s aimed at cleaning up the process of public works contracting, the procurement process was an exceedingly complex set of activities regulated by numerous pieces of legislation stemming back to 1865.⁹ There were four ways that political authorities and their agents solicited bids for works:

1. public automatic tender (*asta pubblica*);
2. selective tender (*licitazione privata*);
3. competitive tender (*appalto concorso*);
4. private contracts (*trattativa privata*).¹⁰

Each of these contains various subtypes; for instance, there are actually five distinct selection mechanisms that can be used under selective tendering. I ignore that level of detail and focus instead on the basic characteristics of each type. For our purposes, the main point is that none of these (not even the first) was immune from corrupt exchanges, precisely because corruption was instigated and coordinated by political authorities themselves and was not merely a problem of inadequate or ineffective monitoring of bureaucrats by elected officials.

In public automatic tender, the government is required to select the lowest bidder. Even in the mid-1970s, however, the OECD noted that this procedure “is only exceptionally used in practice,” (Organization for Economic

⁸It appears that data could be collected to allow systematic analysis. For instance, it may be possible to collect data on the amounts and numbers of bids for various works, as well as on the types of bids.

⁹Italy exhibits excessive legislation in this, as in most other areas.

¹⁰For language, I draw on (Organization for Economic Cooperation and Development 1976, p. 60), which is the only English-language description of the Italian public procurement process that I have been able to locate.

Cooperation and Development 1976, p. 60); it is unlikely to have become more common subsequently. Moreover, costs are allowed to increase in certain circumstances during the life of a project (in *revisione dei prezzi* and in *varianti in corso d'opera*) so ultimately what had started as the lowest bid could become substantially more costly in practice.

The other three types of procurement mechanisms all permit substantial discretion in the selection of the firm to whom the contract goes. With *selective tender*, only firms that are invited to submit bids may do so. The criteria used are naturally easily susceptible to manipulation. *Competitive tender* differs from selective tender only in that the contractor prepares the project plans as well as the bid for the work. *Private contracts*, finally, are meant for situations of unusual urgency, and allow the government to negotiate directly with a specific, hand-picked firm over the terms of a contract.

In the period prior to judicial exposure of widespread corruption in public works contracting, all four types of procurement processes regularly involved illegal kickbacks. Some of the ways in which this occurred are detailed in (della Porta and Vannucci 1994, ch. 3). As far as I am aware, the properties of these various types of procurement processes have not been formally analyzed.

In the absence of formal analytic work illuminating the underlying mechanisms of these illegal exchanges, I make a series of simple analytic observations relevant to understanding these situations, and to delineating how the interactions we observe in Italy may differ from similar interactions in other settings.

- Kickbacks were organized by political authorities. There is widespread evidence, largely judicial in nature, that elected and appointed political authorities were routinely involved in the illegal transactions that occurred. These transactions necessarily often involved appointed bureaucratic authorities as well, but the latter seem to have been largely secondary in importance and not operating independently in the type of corruption studied here;¹¹

¹¹There are some situations where bureaucratic authorities in Italy operated independently in illegal transactions. The Guardia di Finanza, for instance, who function as tax inspectors, were illegally collecting bribes from the firms' whose books they inspected. They were pocketing the bribes personally, however, or handing them up to their superiors, in an instance of autonomous bureaucratic corruption.

- The kickbacks were used for various purposes, including personal enrichment, but the main aim — although this is difficult to demonstrate conclusively — was to collect monies for the electoral campaigns of politicians. Politicians were restricted in the monies they could raise legally (by a 1974 law on campaign financing) and organizationally (by the fact that party funds were used to fund competition with other parties, leaving individual politicians to raise their own monies). Individual politicians in turn required their own personal campaign funds for at least two reasons. First, candidates to the legislature needed to amass preference votes in order to obtain or retain seats, since the existing electoral system allocated seats to candidates who appeared on party lists exclusively on the basis of the number of preference votes received. Second, individual politicians needed funds in order to control internal party resources. For instance, controlling party membership cards (often purchased in bulk by local politicians) provided leverage in local politics; likewise, controlling preference votes measured factional strength in some parties, and factional strength in turn determined the allocation of ministerial posts (within the DC, for instance). As a result, as one of the Milanese prosecutors put it when analyzing the incentives for illegal activities, “the more someone amasses money, the more he rises in the party hierarchy” (Davigo 1998, p. 17);
- The kickbacks were extorted by the politicians collecting them. This is a controversial and empirically undocumentable point, one that I advance on theoretical grounds. The alternative view is that the firms paying kickbacks organized themselves autonomously to do so, in order to reap monopoly rents.¹² In the evidence uncovered by judicial authorities, many situations were identified in which firms paid kickbacks but in which no clear extortion appeared to be taking place. For instance, firms sometimes paid kickbacks on a regular basis, whether they were

¹²The Italian-language sociological literature sometimes argues this. Confusion stems from the failure to distinguish equilibrium aspects of the situation from causal aspects. Because the illegal exchanges between political authorities and firms constituted an equilibrium — the sociological literature agrees with this as well — no one had an incentive to deviate; hence, businessmen appeared to be willing participants rather than coerced. But the interactions may nonetheless have arisen when politicians moved first, thereby deliberately creating a situation which made payment of bribes preferable to not paying them for firms. If by not paying firms were forced to exit the industry, then payment may informally be thought of as extortion. (In Italian, the firm in the latter situation is guilty of *concussione* not *corruzione*.)

receiving public works contracts or not, simply as a kind of secret “tax” to local political authorities, in order to remain in the game to receive future contracts. In such cases, extortion ostensibly was not taking place. There are analytic reasons for believing that ultimately the system rested on political extortion, however. Relevant literature contends that collusive cartels face four obstacles: dividing the spoils, self-enforcement, maintaining barriers to entry, and fending off buyers’ destabilizing activities (McAfee and McMillan 1992, p. 579). In the Italian case, three of the four obstacles were handled by political authorities. Political authorities enforced the cartel arrangements, preventing defections by refusing to award contracts to firms that did not pay kickbacks; authorities maintained barriers to entry by refusing to award contracts to non-cartel members; and authorities obviously had no interest in destabilizing the arrangements from which they were so handsomely benefiting. The only thing left for the firms was to set up ways to divide the spoils, which political authorities do not appear to have been very interested in doing.¹³ But this was obviously trivial compared with the other tasks. Ultimately, in short, firms whose owners were unwilling to pay kickbacks (perhaps due to moral scruples, or perhaps for other reasons) were excluded from doing business in the sector, and exclusion was enforced by the political authorities awarding the contracts;

- Firms organized themselves into collusive cartels in response to political extortion, as a way to increase their profits in order to cover the kickbacks they had to pay; i.e. as a way to reap monopoly profits. This is another point difficult to document empirically, but that makes sense theoretically. It is consistent with the fact that judicial authorities report that collusive cartels in Italy characterize *only* those markets involved in public works contracting and are not observed in other markets (Davigo 1998, p. 118). Assuming politicians were the first movers in establishing corrupt interactions — for example, the local *assessore* for public works demands 5 percent of the value of the contract before awarding it — the firms so extorted have incentives to attempt to increase their profits above the market rate in order to be able to afford to pay the

¹³Politicians, for instance, might arrange for a single large firm to award contracts and receive kickbacks, leaving the “mother” firm to allocate the work and collect the monies from a series of smaller companies.

bribes. One possibility was for the political authorities to allow firms to set above-market prices individually. But this creates the danger that a competitor who is not paying bribes will attempt to enter the market with a lower bid, or will go to the judicial authorities if repeatedly and unjustifiably excluded. A cartel arrangement, especially one policed by the political authorities, creates barriers to entry, thereby stabilizing the situation politically while permitting firms above-market profits. Hence, firms have incentives to establish cartels where communication among entrepreneurs makes this possible;

- Once corruption reaches a certain threshold, it becomes so routine and predictable a part of the political environment that we no longer observe out-of-equilibrium behavior. Firms that refuse to pay bribes no longer try to enter certain sectors; politicians not on the take do not get elected; and for reasons I touch on only in part, agents external to these processes — opposition parties, the press, and the judiciary — are rendered (temporarily) ineffective;
- The interactions described above pertain to northern Italy; in the South, by contrast, the Mafia and other criminal organizations apparently acted as enforcers rather than (or in alliance with) political parties (della Porta and Vannucci 1995). Where organized crime was involved, enforcement rested ultimately on the threat of physical violence, which seems to have permitted especially durable cartels to emerge. In parts of the South (Sicily, for instance), it was almost impossible to establish a business without paying protection to the Mafia (della Porta and Vannucci 1995, p. 173); see also (Gambetta 1993). For a variety of reasons, some of which are obvious, it is even more difficult to collect information on cartels operating under criminal protection than on politically-protected cartels. The argument I advance in this study is hence largely applicable to the North, whereas the extent of its applicability to the South remains unknown.

Below I offer some evidence below that the investigations begun in 1992 may not have broken up cartel operations (and possibly kickbacks) in the South.

In sum, paying kickbacks for public works contracts appears to have been

widespread in Italy prior to 1992. In some localities, kickbacks were *uniformly* paid for government contracts, and politicians from all political parties (even the major opposition party) were involved. This was true in Milan, for example. In others, kickbacks were also very frequent, but only politicians associated with the national governing parties received payoffs. This appears to have been the case in Rome. The latter was probably the more common situation, judging from the fact that the country's major opposition party remained relatively unaffected by the judicial investigations of the 1990s. Where excluded, the PCI was obviously unable to expose widespread political corruption, since by definition exclusion denied it access to incriminating information. Within the governing parties, corruption seems to have become so prevalent that there was almost no one who was highly placed and with access to sufficient information who was left to denounce it, since moving up the party hierarchy hinged on participation in illegal activities.¹⁴

4 Theory: When do Collusive Cartels Collapse?

Given the situation described above, only an exogenous shock is likely to have undermined the conditions sustaining the cartels for public works contracts that existed in Italy in the 1980s and earlier. The arrangements between firms and politicians reflect equilibrium conditions, from which no one had an incentive to deviate, and a shift in strategy by one participant is unlikely to have occurred spontaneously.

In the theory of oligopoly, cartels exist in order to create conditions in which firms occupying the same market do not have to compete against each other, thereby enjoying monopoly profits. Because bids typically become public information in the government procurement process, making secret price cutting by cartel members impossible, governments are especially vulnerable to collusion (Stigler 1964). The situation studied here is unusual because government agents deliberately and repeatedly sought to enforce collusion among their suppliers, in order to create a situation in which they could extort kickbacks out of monopoly profits. Government agents thus had in-

¹⁴In firms and in local government offices, likewise, once corruption reached a certain level, *all* employees were essentially forced to participate, because it became too dangerous to allow anyone to remain close enough to possibly observe illegal exchanges without participating in them.

centives to continue to participate in these arrangements, quite apart from the fact that public knowledge of their involvement could expose them to criminal prosecution.

What about the firms? The argument advanced is that a sudden drop in demand may disrupt a collusive cartel, providing an incentive for cartel members to attempt to withdraw. In this context, a drop in demand means a reduction in government spending. Given the nature of the illegal arrangements studied here, and the fact that the cartels were externally enforced, *withdrawal from the cartel entailed the incentive to provide evidence to judicial authorities in their on-going investigations into corrupt political practices.* The only way to escape paying kickbacks, and therefore potentially to keep the firm afloat, was to incriminate the politicians extorting them.

The reason is that these firms — at least many of them — were entirely dependent on government contracts to survive, and could not easily shift into alternative markets. If the amounts of money going into public investment were reduced, the profits to the firms receiving contracts would be reduced accordingly. Lower profits could be reallocated with across-the-board cuts (all cartel members receive 10 percent less in the annual value of contracts), unevenly (one cartel member receives nothing, everyone else receives the usual), or with some combination of the two. Equitable reallocation was presumably inherently difficult in industries in which the products were normally lumpy. Although there are reports that contracted work was sometimes divided up unnaturally in order to provide business to specific firms — a few meters of highway construction given to a particular firm, for instance, out of a much larger job — at a minimum any reduction in demand increased the difficulties firm members experienced in dividing the spoils simply by forcing cartel members to renegotiate. Moreover, small family-owned firms, which characterize a large part of the Italian construction industry, had little recourse to external capital, given the nature of Italian capital markets. Even a short term reduction in demand could, if serious enough, jeopardize the firm's future by potentially sending it into bankruptcy.

It was precisely to escape this dilemma that I posit that entrepreneurs began to confess to judicial authorities. If the reduction in contracts introduced a genuine threat of bankruptcy, voluntarily confessing, thereby receiv-

ing a lighter sentence, would appear the lesser evil.¹⁵ Businessmen could be charged with *corruzione*, which means involvement in bribing a public official, or with *concussione*, which means the entrepreneur confesses to having been extorted to pay bribes. The latter was a lesser offense. The entrepreneurs who confessed inevitably argued that they had been extorted, but the precise charge to press lay with the discretion of the judicial authorities. Hence exhibiting cooperative behavior by incriminating others was potentially useful for receiving the lesser charge. It is also true that in the context of a demand slump, with firm finances under strain, keeping an entrepreneur in jail for a few months to see if he would confess put greater economic pressure on the firm than doing so might have a few years earlier. By preventing the businessman from actively running his company in a period of reduced demand, the judiciary heightened the likelihood that the firm might be thrown into distress.

These arguments pertain to firms operating mainly or exclusively in the sheltered sector. Firms that were more diversified, and that also sold goods and services to buyers other than the government, were less vulnerable to a slump in infrastructure investment. Larger firms, with possibly greater access to external capital markets, were also less vulnerable than small, family-owned firms. Larger firms were less vulnerable as well because they might have a manager available to operate the company even if the owner was jailed. I have not been able to locate appropriate data to test systematically these hypotheses about firm size and type, but in the next section, I assess the general line of reasoning presented here.

5 The Collapse of the Cartels: Qualitative and Quantitative Evidence

In this section, I provide preliminary evidence that the collapse of the cartels in Italy was triggered by a drop in demand, and that this collapse is what permitted judicial investigations to go forward, implicating thousands of Italian politicians at all levels of government. The evidence consists of two sorts. The first draws on primary and secondary documents, including the memoirs

¹⁵Since Italy is without whistle-blower legislation, businessmen who confess necessarily incriminate themselves.

of the prosecutors most involved in the Tangentopoli investigations. The second type of evidence uses quantitative data to study the relationship between judicial successes in extracting confessions from businessmen and investment decline, and presents preliminary results of a multiple regression analysis. The quantitative evidence that I present is consistent with the interpretation offered here. However, in part because important aspects of the situation studied here are unmeasurable — for instance, there is no direct measure included in the analysis of the existence of cartels, which certainly varied by industry and locality — the results require an unusual degree of caution in interpretation. Finally, I also argue that the drop in demand appears to have stemmed from changes in international constraints.

5.1 Primary and Secondary Evidence

The wave of investigations known as Tangentopoli began with the arrest on 17 February 1992 of Mario Chiesa, the president of one of Milan’s largest and most well known retirement homes, the Pio Albergo Trivulzio (PAT). Chiesa’s wife, from whom he was legally separated, had gone to the judiciary with evidence that her former spouse was receiving kickbacks but not reporting them for purposes of alimony (Andreoli 1993). Acting upon this information, Chiesa was arrested in a sting operation while taking a small bribe from the PAT’s cleaning company. The judiciary, which did not want to appear to interfere in the electoral process, proceeded to collect evidence but did not issue its first subpoenas until after the national elections on 5 April. On June 1, an initial *richiesta ad autorizzazione a procedere* was transmitted to parliament, requesting removal of the parliamentary immunity of five deputies (three Socialists, one Republican, and one Communist).¹⁶

The investigations that attracted so much attention in the period following the 1992 elections were hardly the first that the judiciary had undertaken to expose political corruption in Italy. In fact, such investigations stem back at least to 1974 and a series of bank collapses in Italy, Switzerland and New York linked to the financier Michele Sindona. They were followed by other banking and political exposés, including the P2 case, when it became public

¹⁶Carlo Tognoli (PSI), Gianpaolo Pillitteri (PSI), Antonio Del Pennino (PRI), Gianni Cervetti (PDS), and Renato Massari (PSI).

that many important Italian politicians belonged to a secret Masonic organization whose goals could plausibly be interpreted as involving subversion of the Italian constitution (Ferraresi 1992). In these earlier cases, small numbers of magistrates, flanked by a handful of journalists, were usually at the center of activity, occasionally receiving help from the opposition parties, especially those to the left of the PCI (De Luca and Giustolisi 1993). Similarly, for many years a small number of newspapers, often local in readership — *La Voce della Campania*, for instance, a Neapolitan monthly — had repeatedly tried to investigate political corruption (Bechis 1994, p. 200). Efforts to expose networks of political corruption that led to the highest echelons of power were inevitably frustrated, however. The prosecutors were blocked, routinely defamed in the press, sometimes themselves transferred when their cases were not transferred, and the newspapers that publicized their investigations were sued (De Luca and Giustolisi 1993, p. 103)(Bechis 1994, p. 200)(Gilbert 1995, p. 128). One of the most prominent Milanese public prosecutors eventually involved in Tangentopoli subsequently claimed that it would have been possible to expose the far-reaching political corruption that only came out in the early 1990s a good ten years earlier if some of his investigations in the 1970s or 1980s had been allowed to go forward (Colombo 1996, p. 12). Similarly, the most visible of the Milanese public prosecutors — Antonio Di Pietro — had personally been attempting to uncover illicit ties between politicians and businessmen since 1985 (Di Pietro 2000, p. 5).

Success of the 1992 investigations did not therefore stem from a change in the behavior of the judiciary. Public prosecutors had been pursuing allegations of political corruption at least since the increase of judicial independence in the 1960s had resulted in judicial careers that were almost entirely self-regulated (rather than being dependent on political favoritism) (Guarnieri 1995, pp. 94–95). By the 1980s, it was commonly claimed that the Italian judiciary was the democratic world’s politically most independent. Moreover, despite evidence of the occasional “bought” or criminal magistrate in Italy, most members of the judiciary appear to be honest and competent professionals. The main motivation driving the prosecutors who investigated Tangentopoli seems to have been exquisitely professional: a desire to see the law enforced even (or perhaps especially) for those who acted as though

they were above it.¹⁷ Professional commitment, however, seems an unvarying aspect of the situation.

The Milanese prosecutors themselves report that their abilities to pursue their investigations improved in the early 1990s, for at least three distinct reasons:

- The Council of Europe’s 1990 Strasbourg Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime improved international judicial cooperation in investigations by providing for an obligation to assist across signatory states. Concretely, it allowed a magistrate in one country to contact his or her counterpart abroad without having to go through the Ministry of Foreign Affairs, and permitted Italian public prosecutors to collect evidence about offshore bank accounts of Italian firms operating abroad. Di Pietro reports that the investigations underpinning Tangentopoli included an initial inventory of all Italian firms receiving government contracts that also operated abroad, and active investigations of 151 of them, including subpoenaing their books, tracing flows of money abroad, and looking for suspicious payments. These investigations moved forward in part thanks to information received especially from Swiss judicial authorities (Di Pietro 2000, pp. 43–44);
- The 1989 revision of the Italian penal code, which gave somewhat greater investigative capacities to public prosecutors (Colombo 1991; Volcansek 1990), although this does not seem essential to subsequent developments;
- The breakdown of “omertà” among the businessmen investigated; that is, their greater propensity to confess once interrogated and jailed. This is usually reported without explanation in the literature.

In addition, at least two other factors may have been important to judicial success once the investigations became public:

- A possibly greater degree of support for investigations by the press (Giglioli 1992);

¹⁷Other interpretations are possible. (Burnett and Mantovani 1998) claim that the main motivation of the prosecutors was partisan, whereas (Pizzorno 1998) claims it was moral. It does not seem possible to distinguish empirically among these, nor does it seem particularly useful.

- A possibly greater degree of public support for the judiciary than in the past, although the evidence that corruption was widespread had been public for many years (McCarthy 1995, p. 140).¹⁸

It is the cascade of confessions that I wish to highlight. Without them, investigations would have hit a brick wall. Prosecutors report that in the past, businessmen suspected of paying kickbacks simply refused to provide information, even when jailed for considerable periods of time.¹⁹ In 1992, by contrast — and even in 1991 — jailed businessmen in the North began to talk, in order to save their firms (Di Pietro 2000, p. 50).

Why? According to one of the prosecutors most intimately involved in the Tangentopoli investigations:

...the restrictions on public spending, due to international agreements, meant things could not continue as before. With the squeeze on public finance, kickbacks began to weigh on company books rather than on the public administration, as had been the case. This created strong incentives for refusal by economic actors in various sectors. Kickbacks were now strangling those who paid them (Davigo 1998, p. 49).

In the next section, I investigate part of this line of argument with a quantitative analysis.

5.2 Quantitative Analysis

I now turn to a preliminary data analysis to assess whether a drop in demand is significantly associated with the success of judicial authorities in amassing incriminating evidence of political corruption. I begin with a description of the main variables of interest.

There are various ways to measure the success of Tangentopoli. By November 2001, the Milanese investigations had resulted in 1,251 indictments, of which approximately half had resulted in convictions. Data collection difficulties prevent assembling similar information for the entire country,

¹⁸Since each of these factors may be endogenous to the breakdown of the corrupt equilibrium, it is difficult to evaluate their causal relevance.

¹⁹Since Italy is without the right of *habeas corpus*, suspects may be jailed almost indefinitely in what is called “preventive detention.”

however. Moreover, these figures do not specifically capture the *political* impact of the investigations.

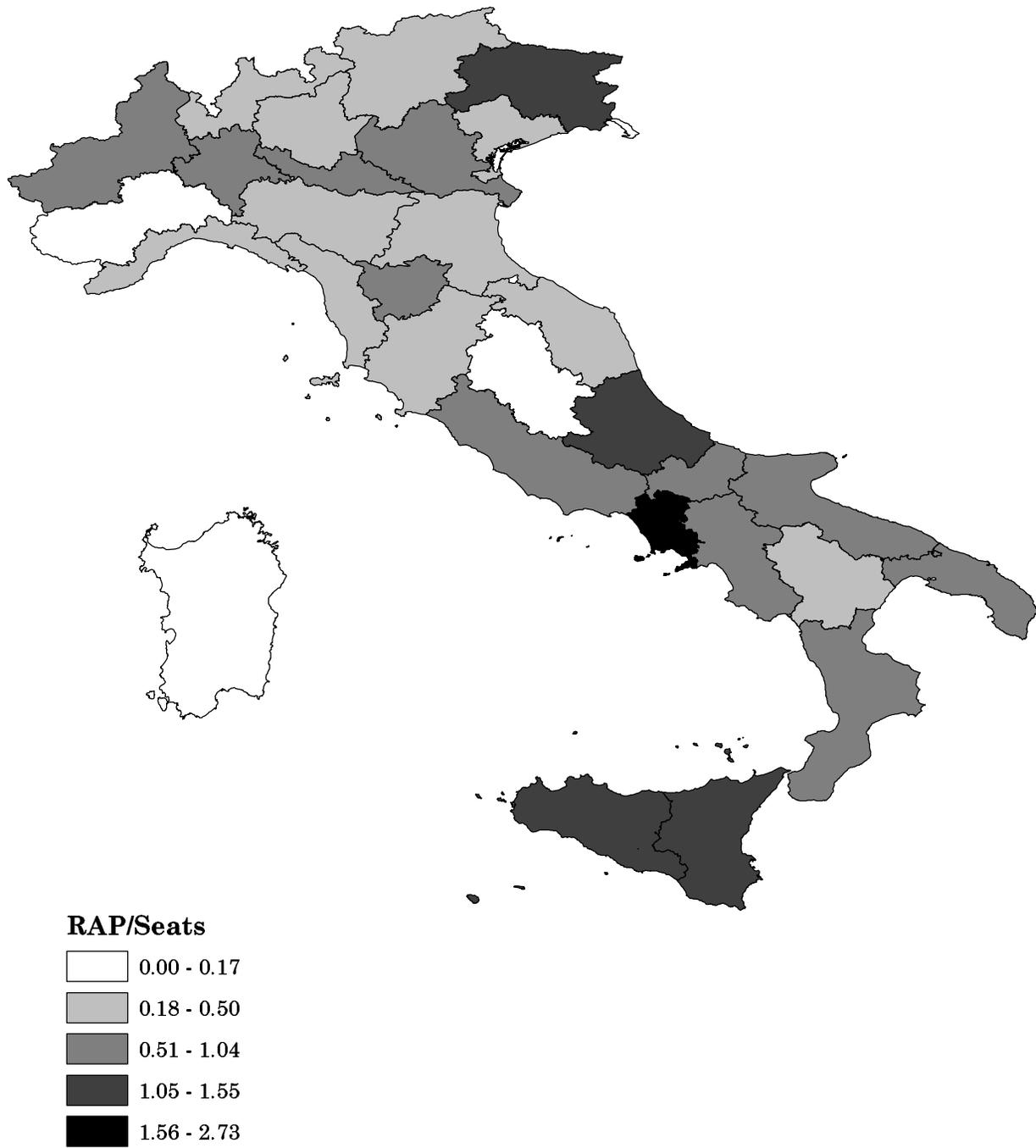
To do that, I assembled data on judicial requests to remove parliamentary immunity from members of the Italian lower house. Until November 1993, when Parliament modified Article 68 of the Constitution, such requests required a majority vote of those present in the appropriate chamber in order for prosecutors to proceed with their investigations of legislators. In the legislature that sat between 1992 and 1994 (the XI Legislature), there were 685 requests to the Chamber of Deputies to remove immunity, in a house with 630 members. (For details on the data analyzed, see the Appendix.) Of these, I dropped 118 as involving opinion charges, which arise frequently in Italian legislative life as the elected are charged by their rivals for libel and slander purportedly taking place during electoral campaigns. This left 567 RAP in the dataset, all of which I considered as potentially involving political corruption and abuse of office.²⁰ Figure 1 maps the number of RAP per electoral district over the life of the legislature, where the number of RAP is deflated by the number of deputies seated from the district. (There are 32 electoral districts, one of which elects only a single legislator and is for this and other reasons dropped from the analysis.) Because some deputies receive multiple RAP, ratios are above 1 in some instances. The data displayed in the map show that charges of political malfeasance were frequent across all parts of the peninsula, rather than being geographically concentrated.

The main independent variable of interest is spending on public works. Given the nature of the firms in question — generally small, family-owned and operated, with little or no access to outside capital — I hypothesize that even a short term drop in spending may have represented a severe threat to their financial viability. Ideally, I would examine quarterly data on infrastructure investments, but these are not available. Instead, I analyze annual data from the period just preceding and concurrent with the wave of confessions that took place in the second half of 1992. Figure 2 shows the total monies spent on infrastructure investments in Italy from 1985 to 1996.²¹

²⁰Charges in fact ran the gamut from speeding to multiple counts of corruption. Because even speeding may involve abuse of office (Bechis 1994, pp. 152ff), I did not limit the dataset to only those charges explicitly having to do with corruption, failure to observe the law on campaign financing, or abuse of office. In any event, these comprised the bulk of RAP considered.

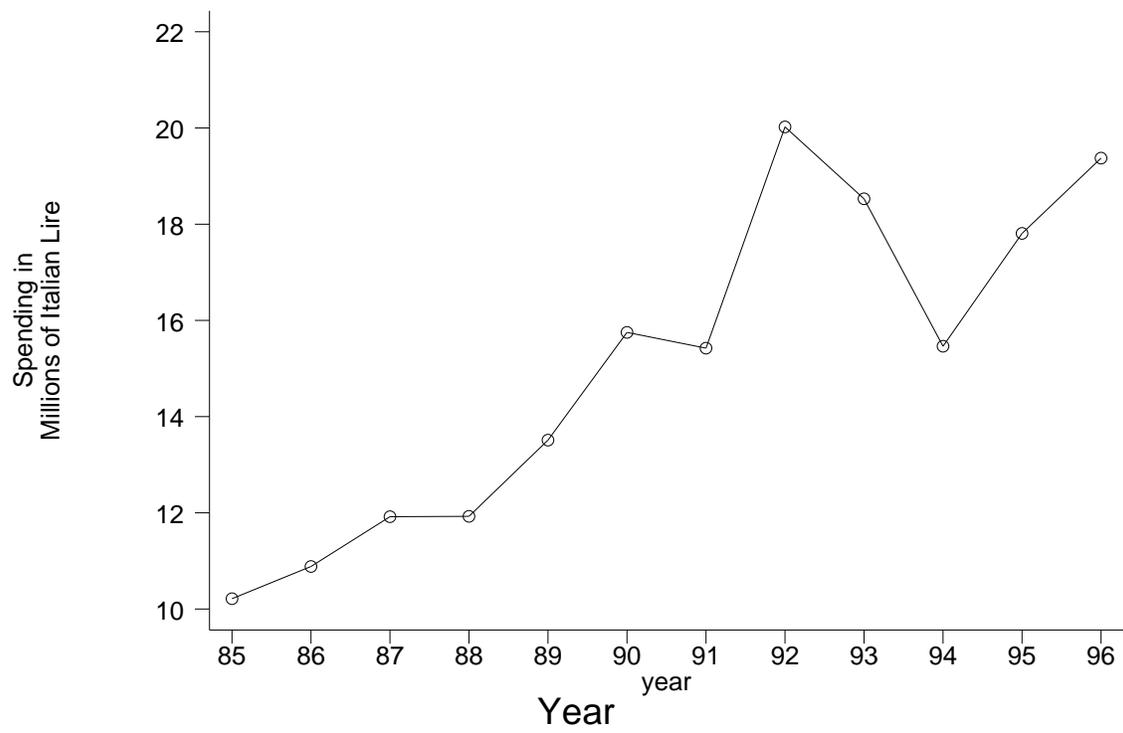
²¹Because ISTAT's data collection methods changed in 1985, the series is interrupted, and I do not display data prior to that year.

Figure 1: Map of Ratio of RAP to Seats, Chamber of Deputies, XI Legislature (1992–94)



Sources: See Appendix.

Figure 2: Total Infrastructure Investment in Constant Prices (1985–96)



Sources: See Appendix.

The data displayed in the graph show an initial, relatively small decline in total infrastructure investments in 1991, and then a much sharper decline in 1993 and 1994. The latter follows close on the heels of the withdrawal of the *lire* from the European Monetary System in September 1992, after which the Italian government exhibited an explicit and very public commitment to meeting the criteria laid out in the Maastricht Treaty (see (Ferrera and Gualimini 1999; Reviglio 1998; Sbragia 2001; Spaventa and Chiorazzo 2000)). The literature on Italian public finances of this period stresses the importance of changed government priorities as of the summer of 1992, when the new government (led by Socialist Prime Minister Giuliano Amato) is typically credited with initiating attempts at adjustment (Brunetta and Tronti 1993, p. 170).

More important for present purposes is the fact that the primary balance — the relationship between revenues and expenditures minus interest payments — swung around the year before, in 1991 (Sbragia 2001, p. 84, table 5.2), just as government commitments stemming from 1988 had promised (Padoa Schioppa Kostoris 1993, p. 217). Expenditure cuts may thus have been occurring earlier than has typically been recognized.²² This is consistent with the fact that even in early 1991, prior to the signing of the Maastricht Treaty, Italian newspapers frequently reported stories about the country's poor economic management and chronic overspending, with the main message that severe cuts were necessary to meet international (that is, European) standards for the deficit. In March, for instance, Italy's Treasury Ministry stated that the country would likely miss the first wave of entry into European Monetary Union if spending were not reined in (*Corriere della Sera*, March 20, 1991), and in April, the International Monetary Fund publicly criticized the country's pattern of economic management, suggesting the new government would have to cut spending (*Corriere della Sera*, April 9, 1991). A few days later, Fiat's managing director spoke to the Italian parliament, warning that the country was in danger of being frozen out of European economic and political progress for the next 30 years if it could not successfully reform its political and economic management (*Corriere della Sera*, April 11, 1991). The pressures on Italian public finances were quite obviously external in origin, coming mainly from the European Union (see the analysis in (Dyson

²²An analysis of expenditures within the more general context of macroeconomic policy is required to verify this.

Table 2: Data on Total Infrastructure Investments, 1989–94 (constant *lire*)

<i>year</i>	total amount	average per district	standard deviation	minimum	maximum
1989	1,350,000	435,850	222,987	66,996	950,577
1990	1,580,000	508,084	326,341	88,270	1,624,301
1991	1,540,000	497,513	272,558	98,527	1,135,583
1992	2,000,000	645,886	339,622	152,978	1,590,684
1993	1,850,000	597,684	392,486	142,791	2,184,965
1994	1,550,000	498,807	309,791	204,715	1,775,150

Sources: see Appendix.

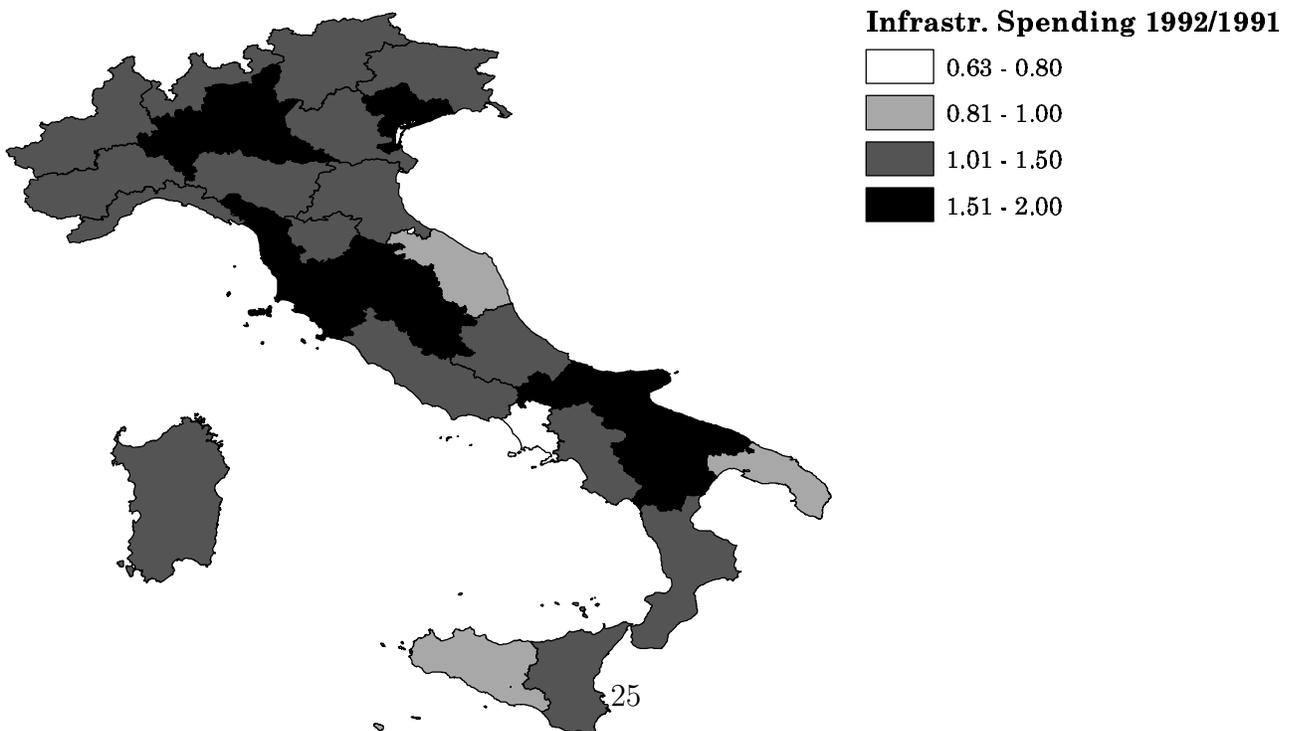
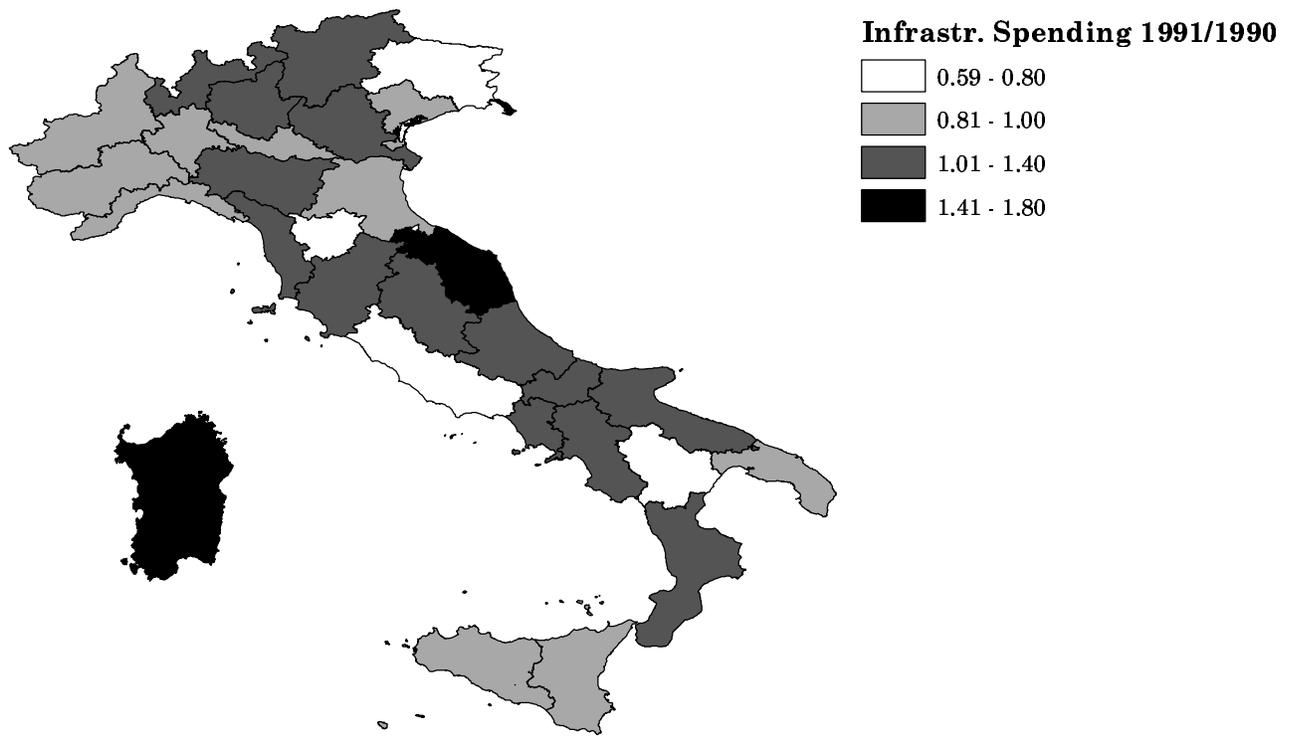
and Featherstone 1999)). In this context, even relatively small reductions in infrastructure investment may have carried with them the expectation that reductions were likely to continue.

These aggregate figures obscure substantial geographic variability, of course. This is indicated, first, by the data displayed in Table 2, which reports some descriptive statistics on total annual infrastructure spending for the years 1989 to 1994. In 1992, for instance, even as total and average spending across electoral districts rose, so too did the standard deviation, meaning that districts were differentially affected by the increases in spending.²³

Figure 3 shows the ratio of infrastructure investments (in millions of constant *lire*) in 1992 over 1991 and in 1991 over 1990 across the country’s 32 electoral districts. These figures indicate how spending changed from year to year across the Italian territory. Nearly half of Italy’s electoral districts experienced declines in infrastructure spending in 1991 compared with 1990, a trend that was reversed in 1992, when most districts saw their investments increase again. Given this, the relevant drop in investments that triggered the confessions of 1992 probably actually occurred in the previous year.

²³As far as I know, no one has analyzed the determinants of infrastructure spending across Italian regions; for work on their impact, see (Picci 1999; Picci 2002).

Figure 3: Maps of Ratio of Infrastructure Investments (millions of constant *lire*)



Sources: See Appendix.

I now turn to preliminary multiple regression analysis. The model studied is as follows:

$$RAPSTS_{it} = \beta_0 + \beta_1 INVESTS_{it} + \beta_2 INTRA_{it} + \beta_3 DCLOSS_{it} + \varepsilon_{it} \quad (1)$$

where

- i is the electoral district;
- t is the period;
- RAPSTS is a measure of judicial success, operationalized as the number of judicial requests between 1992 and 1994 (the life of the XI Legislature) to remove parliamentary immunity for non-opinion crimes deflated by the number of legislators from the district;
- INVESTS is a measure of the demand for cartel products, or the amount of infrastructure investments (in millions of constant *lire*) in 1992 in relation to 1991 (or in 1991 in relation to 1990) in the district;
- INTRA is a measure of intraparty competition, or the total number of preference votes received by Christian Democratic candidates divided by the total number of list votes received by that party in the 1992 elections in the district;
- DCLOSS is a proxy for expected future political protection, measured as the difference between the share of votes received by the Christian Democratic party in 1992 over 1987 in the district; and
- ε is an error term.²⁴

The reasoning underlying the inclusion of a variable measuring intraparty competition within the DC is that we know that this is a significant determinant of suspected malfeasance (certainly among Christian Democratic legislators). In the postwar era as a whole, (Golden and Chang 2001) estimate that about half of suspected malfeasance on the part of Christian Democratic legislators was driven by the search for preference votes. I expect the sign

²⁴Details about the data are available in the Appendix.

on this variable to be positive, meaning that as intraparty competition rises with the number of preference votes cast, charges of malfeasance also rise.

The reasoning underlying the inclusion of a variable measuring the loss of vote share by the DC in 1992 over 1987 is that the change of strategy on the part of businessmen may have had multiple sources. Was a drop in demand enough to break up highly protected collusive cartels, some of which — in roadworks, for instance — had existed for decades? Or was the expectation that the politicians might be less well positioned to supply protection in the future a necessary part of the calculus? The latter expectation in turn derives from the belief that the governing parties, although still in command of a parliamentary majority after the May 1992 elections, might not be after subsequent elections, or that their ability to supply protection might be seriously impaired by their reduced parliamentary majority. I expect the sign on this variable to be negative, meaning that as the ratio of the DC's vote share in 1992 over 1987 fell with greater electoral losses by the dominant party, the judiciary should have experienced greater success in getting businessmen to confess to involvement in corruption.

The measure of investments captures the change in government spending on infrastructure between 1992 and 1991, and between 1991 and 1990. Because prosecutors report some easing in their abilities to collect information from suspects even in the year prior to the beginning of Tangentopoli, and because nearly half of Italy's electoral districts experienced relative declines in infrastructure investment in 1991 over 1990, I test a model in which a fall in demand may have occurred a year prior to Tangentopoli as well as a model in which it occurred simultaneously. Note that of course there is no way to measure directly the confessions of businessmen, only their subsequent impact on the ability of the judiciary to implicate national elected officials, and data on the latter are available only by legislative session.²⁵

Regression results are presented in Table 3. In both Model 1 and Model 2, the change in spending exhibits the correct sign and is statistically signif-

²⁵Strictly speaking, this is not true. The date on which the RAP is transmitted to Parliament is available in the dataset I am analyzing. However, the substantive significance of this date is unclear. We know that judicial offices did not automatically transmit requests to remove parliamentary immunity after having collected enough potentially incriminating evidence. Rather, they acted strategically in delaying requests in some circumstances. It thus does not seem to be useful to use the date of transmission as a temporal marker for analysis, since the date may be politically manipulated by the judiciary.

icant at conventional levels. In both models, however, district 22 (Naples) constitutes an outlier. In Naples, there were 120 *richieste ad autorizzazione a procedere* during the life of the XI Legislature, fully 46 of which were lodged against three deputies (including the Minister of Health). Model 3 re-estimate the equation for the change in spending between 1991 and 1990 with district 22 dropped from analysis. The results show that even without Naples, the change in spending continues to exhibit the correct sign and is statistically significant at conventional levels. (This is not true without district 22 for 1992 over 1991, the results for which I do not report.)

In all three equations, intraparty competitiveness also exhibits the correct sign and is statistically significant. The DC's electoral losses in 1992, finally, are included only in the regression studying the change in spending in 1992 over 1991, since it did not seem sensible to include a measure of an event that had not yet occurred in the other two models. The variable exhibits the correct sign but is not statistically significant. This suggests that the perception by businessmen of a change in the overall political environment was not a relevant factor in their decisions about whether to confess to the judiciary. Instead, the results reported (especially in Model 3) indicate that a short term shock to spending may have precipitated a switch in strategy on the part of businessmen, catalyzing their confessions of illegal behavior in attempts to save their firms.

Finally, I turn to other types of quantitative evidence that could corroborate that a breakdown of collusive cartels occurred in the early 1990s. An improvement in the efficiency of public works would be consistent with this. While there is fragmentary evidence in support of this — reports are that in some localities, the cost of public works fell on the order of 40 percent after Tangentopoli — I have not been able to locate appropriate data to examine this systematically.

A second piece of evidence consistent with the interpretation that a collapse in collusive cartels occurred involves the number of firms operating in cartelized sectors. A particularly good industry to examine is roadbuilding, which 250 firms cartelized illegally for 20 years prior to 1992. The Italian industrial census provides information specifically on the number of firms in this industry for 1991 and again for 1996. Because cartelized industries typically exhibit more firms than competitive industries, a decline in the number

Table 3: Impact of Changes in Infrastructure Spending on Judicial Success

<i>Independent variable</i>	Model 1 1991/90	Model 2 1992/91	Model 3 1991/90
spending change	-.53503* (.3336382)	-.5702976** (.276963)	-.5974426** (.2422003)
intraparty competition	2.163315*** (.6078524)	2.134485*** (.9919719)	1.514526*** (.459124)
DC vote loss		-.551124 (1.2902727)	
constant	-.1127629 (.5091624)	.6227544 (.9043109)	.3150962 (.3787837)
<i>N</i>	30	30	29
Prob. > F	0.0031	0.0048	0.0019
R-squared	0.3482	0.3866	0.3813

Standard errors in parentheses.

Sources: see Appendix.

of firms between these two points in time is consistent with the interpretation that an illegal cartel was indeed broken up. Relevant data are presented in Table 4.

At first sight, the information in Table 4 appears inconsistent with the idea that a breakdown of a collusive cartel in the roadbuilding industry took place in the first half of the 1990s. The total number of firms in the industry rose slightly over the first half of the decade, from approximately 4,200 to more than 4,800. However, if we break the country into 12 southern electoral districts and 19 northern ones, a new interpretation emerges. In the North, the total number of firms as well as the average number per electoral district did indeed fall, although not substantially. In the South, the reverse occurred, as the total number of firms rose along with the average number per district. Moreover, the minimum number of firms per district is nearly twice as high in the South as in the North.

A possible interpretation of the marked North-South difference that we observe in these figures is that in the South, the collusive cartel in roadbuilding was not in fact broken up, but instead remains active, possibly protected by organized crime. In fact, considerable uncertainty exists regarding the trends in organized criminal activity in Italy over the course of the 1990s. There has been a fall-off in public displays of criminal behavior (fewer Mafia-

Table 4: Number of Firms in the Italian Roadbuilding Industry, 1991 and 1996

	total number	average per district	standard deviation	minimum	maximum
<i>Italy</i>					
1991	4,207	136			
1996	4,884	158			
<i>North</i>					
1991	2,595	137	58.5	38	248
1996	2,499	132	57.9	36	239
<i>South</i>					
1991	1,612	134	50.5	67	236
1996	2,385	199	107.6	62	411

Sources: see Appendix.

related murders, etc.) but this is possibly because of better organization and fewer internal disputes. There is some evidence that the economic reach of organized criminal activity expanded over the 1990s, and some data — the reliability of which is largely unknown — suggests that organized crime has expanded its economic reach. Italy’s leading retail association, for instance, contends that in 2000, organized crime controls 20 percent of Italian businesses (Confcommercio 2000).

The figures for the North are by contrast consistent with the interpretation that a collusive cartel in roadbuilding existed but was largely broken up by Tangentopoli. There has been a modest decline in the total number of firms and a modest decline in the average number of firms in the industry per electoral district. This suggests that political corruption in Italy may still exist, mainly in the South, but is arguably no longer coordinated by national political elites.

The results presented above are hardly conclusive. They are, nonetheless, broadly consistent with the interpretation that the success of the Italian judiciary in implicating large numbers of politicians in corruption was associated with a greater willingness on the part of businessmen to confess, and that this willingness in turn was driven by short term concerns about the economic viability of their firms.

6 Alternative Hypothesis: The Exposed Sector

The evidence presented above shows that changes in the strategies of firms operating in the sectors that produced for the government were critical in catalyzing the collapse of the postwar party system. Arguably, however, the intuitively more plausible hypothesis is that firms in the *exposed* sector would be more likely to repudiate the rent-seeking regime they were locked into, precisely because firms in the exposed sector need to be efficient enough to compete internationally, and paying kickbacks for domestic contracts constitutes a clear financial drain.

This line of reasoning appears inconsistent with the evidence. Firms in the exposed sector also producing for the sheltered economy — Fiat and Olivetti are well known examples — used the monopoly rents they extracted domestically to subsidize inefficient production, thereby propping up their abilities to compete internationally (which in context tends to mean within Europe). Although I know of no systematic evidence documenting this, the relevant Italian-language sociological literature repeatedly contends this. That such firms were only reluctantly involved in exposing the corrupt practices in which they engaged is corroborated by the fact that the managers of Italy's large multinationals only confessed late in the game and under pressure. They were not among the entrepreneurs who spontaneously showed up at the halls of justice in Milan and asked to provide information.

Another way to assess the role of the exposed sector, at least the exposed multinational sector, is to examine the behavior of political elites representing large multinational firms. The main political vehicle representing this group is the Italian Republican Party, a small, well-established party with a historically highly visible leadership. The PRI had withdrawn into the opposition in April 1991 after participating as a member of government on and off since World War II, and had publicly endorsed institutional reforms aimed at rendering the political system more accountable and reducing the scope for rent-seeking activities on the part of elected officials.²⁶

The PRI's withdrawal into the opposition meant that with the April 1992 elections, the government coalition — consisting of the DC, the PSI, and

²⁶Nominally, the PRI's withdrawal into opposition occurred when the party failed to receive some particular ministries during a cabinet reshuffle (described in (Pasquino and Hellman 1992, p. 3)).

the smaller Liberal and Social Democratic parties — no longer represented an absolute majority of the popular vote. While the four-party coalition did control an absolute majority of seats in the Chamber of Deputies — 331 out of 630 — the frequent appearance of “sharp-shooters” or “snipers,” as defectors from the government coalition who voted against instructions were called, rendered control over Chamber votes precarious. Had the PRI rejoined the coalition, the government’s majority would have been more than 40-strong, compared with the slim 15 majority controlled by the four-party coalition then in office.

To investigate empirically whether the party of big business indeed played a crucial role in implicating the political elite in wrongdoing, I drew a one-third random sample of the 217 *richieste ad autorizzazione a procedere* that were heard by committee in the XI Legislature (1992–94) and that had not been dropped as relevant only to opinion crimes (libel, slander, etc.). (For details on which statutes were coded as opinion crimes, see the Appendix.) The 217 RAP that were heard in committee — the *Giunta per le autorizzazioni a procedere in giudizio* of the Camera dei Deputati — comprised fewer than half of the RAP presented by the judiciary to Parliament in the XI Legislature. (The number of RAP presented for non-opinion crimes is 574.) The one-third sample that I drew comprised 76 RAP, for which I read the judicial charges, as well as both the committee and floor debates, where available. I coded these for various features, including the committee and floor outcomes (recommendation/vote to concede, recommendation/vote to deny, recommendation/vote to send back to the judiciary), instances of obviously conflict between the committee and the floor, and role of the opposition parties, with particular attention to the PRI. My goal was to investigate whether the PRI had played a critical role in moving the RAP forward; that is, whether the PRI was acting to try to bring down the existing party system and with it systemic political corruption. Evidence that it was would support the interpretation that business in the exposed sector was acting deliberately to transform the political system.

Some knowledge of the parliamentary procedures in place is obviously essential to understand process by which parliamentary immunity may be lifted. The first mover is the judiciary. A local judicial office (*procura*) initiates the investigation of a legislator; in fact, on the basis of Article 111, the Italian

judiciary is constitutionally *required* to open a file in all cases of suspected criminal activity. Given adequate initial evidence, the judicial office draws up a request to remove parliamentary immunity, as required by Article 48 of the 1948 Italian Constitution. This is transmitted to the Ministry of Justice in Rome, which in turn transmits it to the appropriate legislative house; that is, the house in which the representative sits. The request is turned over to the appropriate committee, whose composition reflects the composition of the floor; hence, in the XI Legislature, 11 members represent various governing parties and 10 represent the opposition, with the committee chair held by a representative of the government parties. The committee schedules the item to be heard, and meets to discuss it. The chair appoints a *relatore*, who chairs the session and presents a motion (either before or after hearing the accused, who is typically invited to speak to the committee, although he may decline to do so). The *relatore* is not necessarily a member of the governing parties but may instead represent an opposition party. The committee votes a recommendation to the floor. The information publicly available regarding the committee's actions include summaries of the debates, which may include information on how specific deputies pronounced themselves (and perhaps their parties) on the case, and which always includes information on the committee's recommendation to the floor.

The case is then scheduled by the Chamber's President to be debated on the floor. The floor debate is available in verbatim transcript form. In order to remove parliamentary immunity, a simple majority of those present is required. Floor votes are secret unless there is a successful request to make them electronic. In the first case, the information publicly available on the vote is only which legislators were present during the vote and the total number of votes recorded in favor of, against, or abstaining on the committee recommendation. In the second case, which is rare except where the RAP concerns a request to proceed with the arrest of the suspect or a personal search, information is available on how individual deputies present voted.²⁷ RAP that are not voted on by the floor lapse at the end of the life of the legislature.

I summarize some features of the RAP presented to the XI Legislature, and then some summarize some features of the sample I drew.

²⁷For a variety of reasons, these latter data are not currently available to me to analyze.

First, characteristics of all the RAP presented:

- Of the 574 non-opinion RAP sent to the XI Legislature (1992–94), 215 separate Deputies were identified by the judiciary, or 34 percent of the lower house, including 36 percent of Christian Democratic deputies and 55 percent of Socialists;
- Of the 574 RAP sent to the XI Legislature, 220 were lodged against DC Deputies (or 38 percent of the non-opinion RAP) and 174 against PSI Deputies (or 30 percent of the RAP). These two parties were thus the main recipients of RAP; more than 68 percent of the RAP were lodged against Christian Democrats and Socialists;
- Many deputies thus attracted multiple RAP. In the XI Legislature, the DC held 33 percent of the seats (206 out of 630) but received 38 percent of the non-opinion RAP whereas the PSI held 15 percent of the seats (92 of 630) but received 30 percent of the RAP;
- Of the 574 RAP which I coded as involving charges for non-opinion crimes, 217 were voted in committee (38 percent) and 168 were voted on the floor (29 percent). Fewer than a third were ever decided during the life of the legislature, in short. Most were allowed to lapse;
- 90 of the RAP that were voted, were conceded, comprising 16 percent of those presented to the Chamber of Deputies and 54 percent of those that were voted by the floor. Assuming the governing parties were behaving strategically vis-à-vis public opinion, they successfully kept most RAP off the parliamentary agenda and then conceded a majority of those that they formally considered. This constitutes an obvious attempt to make it appear that most RAP were being approved when in fact most were not.

Second, characteristics of the sample drawn:

- Of the 76 cases studied, 9 were recoded as opinion crimes upon closer reading. These largely involved campaign activities such as affixing posters illegally;

- Of the 76 cases, 16 (or fully 21 percent) exhibit conflict between the committee and the floor. This is a very high percentage compared to the US, for instance, where open conflict between floor and committee almost never occurs. In all cases of conflict, the conflict observed in Italy is between a more stringent committee (which recommends allowing immunity to be lifted) and a more lenient floor (which either reverses the recommendation or fails to get the matter onto its agenda and vote it). There are no instances in the sample in which the committee recommended denial of the RAP and the floor subsequently conceded it;
- At least one of the minor opposition parties spoke in favor of conceding the RAP (either the initial request to remove immunity, or some associated aspect) in committee 60 percent of the time whereas the major party of opposition, the PDS, spoke out in favor only 35 percent of the time. The PRI spoke out only 8 times in committee (about 10 percent);
- The minor opposition parties (among which I include the PRI) were largely posturing, perhaps inevitably given their size. In 61 percent of the cases in which the committee voted to recommend denial of the RAP, at least one minor opposition party spoke in favor of lifting immunity (i.e. a minor opposition party spoke against a majority of the committee 17 times). Representatives of the minor opposition parties were thus speaking precisely in order to mark to the public their dissent from the majority on the committee, but not as a way to successfully obtain their desired outcome. The PDS was much more strategic and effective, by contrast. Its representatives spoke out against a majority of the committee only 5 times during 67 meetings. In half of the cases that the committee voted to recommend lifting immunity, the PDS had spoken in favor; i.e. the PDS successfully achieved its desired outcome half the time, despite its opposition status;
- Finally, committee hearings were coded for internal conflict; that is, cases characterized as not unanimous (when this is reported) and/or as involving open disagreements between members of different parties during committee discussion. In 45 percent of the cases on which adequate information to code was available, there was open disagreement on the committee, a figure far higher than the established literature reports on

committee behavior in Italy, which typically passed legislation unanimously 90 percent of the time. (This said, even in the sample studied here, the *modal* case was one in which there was no open disagreement in committee and in which immunity was not lifted.) Cases involving campaign abuses (not corruption, in other words) were especially contentious: there was open disagreement in committee in 6 of the 8 cases that I read. Cases that involved suspected corruption were on average less contentious (40 percent of the time disagreement on the committee emerged).

Some points of interpretation that emerge from the above analysis:

- The governing parties were largely successful in protecting their members from prosecution;
- Elite political strategies were ineffective or absent in bringing down the existing party system;
- There is no evidence that the PRI deliberately or consistently sought to secure the prosecution of deputies accused of wrongdoing;
- There is no evidence, therefore, of a foresighted political or multinational economic elite that tried to protect its own collective rule;
- The PDS was much more effective than minor opposition parties in securing prosecution of suspected criminal legislators, behaving just as a normal opposition party would be expected to behave;
- As opposed to the interpretation offered by one dominant strand of literature (the so-called consociational hypothesis), the PSD/PCI does not therefore appear to have tried to cover up the extent of corruption or to have protected accused legislators to the extent that governing parties did. The PDS's behavior in committee suggests that this party did not fear being extensively implicated in wrongdoing.

This evidence is not consistent with the hypothesis that firms in the exposed sector played a politically important role, via their parliamentary representatives, in bringing down the existing party system. Instead, it indirectly

documents the importance of the judiciary as an external, independent actor in bringing down the party system. Successful prosecution of criminal wrongdoing by politicians does not appear to have been essential to this. Rather, the established parties collapsed over the flood of accusations to which their members were exposed. By refusing to lift parliamentary immunity in the majority of cases, individual legislators were protected from prosecution. But the political elite as a whole was too deeply implicated in malfeasance to escape political punishment.

7 Conclusions

To what extent is the story presented here generalizable? Do we observe other instances in which integration into the international economy changes the strategies of capitalists, making profit-seeking activities incompatible with the maintenance of existing political arrangements? More precisely, do we observe other political systems whose elites are deeply enmeshed in corruption cleaned up through domestic political processes that were activated from the international arena?

Recent research on Mexico (Diaz-Cayeros, Magaloni, and Weingast 2000a; Diaz-Cayeros, Magaloni, and Weingast 2000b) finds a relationship between exposure to international trade and the loss of electoral support by the dominant party, the Institutional Revolutionary Party (PRI). According to this analysis, voters in the exposed, northern part of the country gradually came to enjoy sufficient economic resources through trade with the United States that they could repudiate the corrupt dominant party despite the threat from the center that resources would therefore be reduced. (Rosenbluth 1996) recounts a similar story about Japan, ascribing the admittedly incomplete end of political dominance by the ruling Liberal Democratic Party (LDP) in the 1990s to international economic factors. These cases show that Italy may not be alone in seeing its rent-seeking dominant party collapse as a result of internationalization.

In both the Mexican and Japanese cases, as well as the case of the shift in strategy by big business in Spain towards the end of the Franco regime, internationally oriented capitalists switched from support of one-party political systems to more open and competitive systems as part of attempts to

exploit more fully the profit-making opportunities in the international economy. Each story is naturally a little different, but the three are similar in the political role they ascribe to externally-oriented capitalists.

The Italian case is quite different. In Italy, we observe no evidence of an externally-oriented capitalist group deliberately switching its political allegiance from support for a corrupt, rent-seeking regime to support for the political opposition, for greater and more authentic political competition, or for a more accountable and transparent political system. Indeed, in the Italian case, externally-oriented capitalists, despite their obvious awareness of the chronic inability of the Italian political elite to meet international standards of economic credibility — the bets on the DC's ability to meet the Maastricht criteria were running heavily against — and despite their increasingly fretful public pronouncements about the workings of the political system, seem strangely passive. The men who rushed to the halls of justice to implicate thousands of Italian politicians in wrongdoing were not the far-sighted, enlightened, well-educated and sophisticated managers of large multinationals whose behavior was driven by thoughtful evaluations of the longterm political and economic prospects for their country. They were their poor relations, second rate businessmen surviving on government contracts and caught up in embarrassing routines of bribes-paying and furtive, illegal transactions, men who ultimately were more fearful that their firms would fail than they were of confessing to criminal activity. They are unlikely to have had any general political goals in mind at all, although their behavior brought down a regime and ended decades of systematic political corruption.

A Data Sources

A.1 Data Used in the Quantitative Analysis

Richieste ad autorizzazione a procedere: Courtesy of the Gruppo Democratici di Sinistra-L'Ulivo of the Italian Senate. Data were made available from the parliamentary database in photocopied format by legislature. The data include the name of the deputy investigated, the deputy's district number, the document number, the statutes listed in the charges, the date of the vote in committee and the nature of the committee's recommendation, the date of the vote on the floor and the nature of the floor's decision, and sometimes the party affiliation of the accused. These data were computerized at UCLA, and party affiliation added where missing. The following statutes from the penal code were coded as opinion crimes: 269, 272, 278, 286, 290, 303, 385, 340, 341, 342, 403, 405, 595, 596; as well as anything related to fascist activities. Opinion crimes were dropped from analysis.

Parliamentary seats: Numbers of seats per district for 1948 through 1987 from *I deputati e senatori dell'primo parlamento repubblicano* through *I deputati e senatori dell'undicesimo parlamento repubblicano* (Rome: La Navicella, 1948–1992). Data for 1992 from Ministero dell'Interno, *Elezione della Camera dei Deputati del 5 aprile 1992*, volume II, *Dati complessivi* (Rome: Istituto Poligrafico e Zecca dello Stato, 1997).

Infrastructure investments: Courtesy of Lucio Picci. ISTAT annual data on millions of *lire* in infrastructure spending are available by province. The figures exclude ordinary maintenance expenditures. The data are collected through quarterly surveys of local government offices. There is some error in the data due to lack of responses. For the years considered, the response rates are 64 percent (for 1990), 68 percent (for 1991), and 72 percent (for 1992). I aggregated the data into electoral districts and deflated the figures by the consumer price index.

Preference votes: Preference votes for all candidates in the Christian Democratic party in the 1992 elections were computerized at UCLA using the information from *I deputati e senatori dell'unidicesimo parlamento re-*

pubblicano (Rome: La Navicella, 1992). The variable used is the total number of preference votes received by all DC candidates.

DC list votes: The number of list votes going to the DC in 1992 is from Gianfranco Pasquino, ed., *1945-1996. Archivio della politica in Italia* (Rome: Laterza Multimedia, CD Rom, 1996).

DC vote shares: The share of votes going to the Christian Democrats in 1987 is from *I deputati e senatori dell'undicesimo parlamento repubblicano* (Rome: La Navicella, 1987), and the DC's share in 1992 is from Gianfranco Pasquino, ed., *1945-1996. Archivio della politica in Italia* (Rome: Laterza Multimedia, CD Rom, 1996).

A.2 Data on Number of Firms in the Roadbuilding Industry

These are the number of firms (*imprese*) in the road construction industry (5 digit code 45230) as of 1991 and 1996. The data were downloaded from the ISTAT website (<http://www.istat.it>), and are from the online 1996 industrial census database.

A.3 Parliamentary Data

The process of reading and collecting data on the *richieste ad autorizzazione a procedere* involves tracing the RAP through the legislature on the basis of the associated Document number. It is as follows:

1. Camera dei Deputati, *Atti Parlamentari, Documenti-Relazioni*, Legislatura XI – 1992–1994, vol. 1 dal Doc. I, n. 1 al Doc. IV, no. 100-A through vol. VII al Doc. IV, n. 551 al Doc. IV-bis, n. 10-A. These volumes contain a copy of the RAP itself and of the Relazione della Giunta, or the written recommendation of the committee that goes to the floor;
2. Camera dei Deputati, Servizio Commissioni, XI Legislatura, *Bollettino delle Giunte e delle Commissioni Parlamentari*, various volumes. These contain summaries of the debate in committee;

3. Camera dei Deputati, *Atti parlamentari dell'assemblea*, XI Legislatura, *Discussioni*, various volumes. These volumes contain verbatim transcripts of the debate on the floor as well as votes.

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