

## Anti-Corruption Reforms from a Global View: An Initial Attempt of Comparing Italy to China

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### Introduction

Under globalization, because of the growing political and economic interdependence among nations, the rapid integration of financial markets through digital technology, and the expanding worldwide network of inter-firm agreements with an increasing portion of the world economy in the hands of transnational corporations, corruption has become a global issue. Corruption today can spread easily through the porous borders of the nations with the help of technology. In many cases it can hardly be detected. The same traditional widely accepted notion of corruption as “misuse of public power for private gains” has broadened. It is no longer referred to the public sphere, but comprehends both private and public actions and behaviors. Corruption resides with both those who exert undue influence and those who are unduly influenced. Corruption is at the crossroad of public and private sectors. In some cases the public official is the most powerful, in other cases private actors dominate. In addition, corruption does not include only illegal actions, but increasingly involve unethical activities not necessarily against the law.<sup>1</sup> Corruption is at its hearth an ethical problem<sup>2</sup> and therefore it expands beyond the sphere of mere unlawful actions. In addition, although culture plays a substantial role in defining corrupt practices (what is corrupt in one society may not be so in another society), today the majority of countries decry most forms of corruption as socially and economically harmful. Among them, the most common are bribery of public officials, kickbacks in public procurement, and embezzlement of public funds (a government official who takes unauthorized funds from the Treasury).

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<sup>1</sup> For a broader definition of corruption as “privatization of public policy”, see Kaufmann, D., “Myths and Realities of Governance and Corruption,” World Economic Forum, *The Global Competitiveness Report 2005/2006*, New York: Palgrave Mac Millan, 2006, 81-98. Definitions of corruption based on legal, public interest, and public opinion criteria, see Gardiner, J., “Defining Corruption,” in Heidenheimer, M. and Johnston, M. (eds.), *Political Corruption*, New Baunswick, NJ (USA): Transaction Publishers 2005, 25-40.

<sup>2</sup> Noonan, J. T. Jr., *Bribes*, New York: Mac Millan, 1984, 702-703.

Corruption is largely viewed as a threat to the very foundation of the global economy<sup>3</sup> and an obstacle to the growing worldwide expansion of democratic governance.<sup>4</sup> Advanced industrialized countries which are undertaking major economic and institutional reforms to enhance their democratic governance, as well as countries undergoing a transition to a democracy and a market economy, and developing countries are facing the problem of corruption. Corruption can be high when privatization initiatives are implemented without an effective regulatory framework and the banking system is liberalized without adequate supervision by monetary authorities. The area of public procurement is particularly exposed to corruption<sup>5</sup> for the close interactions between public and private sectors, the diversified, often sophisticated and complex nature of the works and services provided, and the difficulty in monitoring and detecting the wrongdoing. Numerous surveys show that corruption is greater in construction projects than in other sectors of the economy, it occurs in all countries, and it is pervasive in all phases of the contracting procedures: planning, awarding and maintenance. "Grand corruption," which occurs at the highest levels of government in dealing with major contracts, kickbacks are given to top government officials to be included in the list of pre-qualified bidders and to reduce the length of the list; to obtain insider information; to design the bidding specifications in order to be the sole qualified suppliers, and finally to be selected as a winner. Corrupt practices in major public contracts are also frequent for the purpose of political party financing and other types of political gains. Bribing a politician to exercise power over the bureaucrat responsible for procurement in order to win the contract is a widespread behavior.

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<sup>3</sup> Ample literature shows that corruption harms growth by reducing the incentive to invest and this distorts the allocation of resources and leads to underinvestment and poor growth rates (Tanzi, V. and Davoodi, H., *Road to Nowhere: How Corruption in Public Investment Hurts Growth*, IMF Working Paper 97/139, Washington DC: International Monetary Fund, 1997; Shahid, A. M., "Anatomy of Corruption: An Approach to the Political Economy of Underdevelopment," *American Journal of Economics and Sociology*, 48, 1989, 441-456; Ades, A. and Di Tella, R., *Competition and Corruption*, Applied Economics Discussion Paper, 169, University of Oxford, UK, 1995; Ades, A. and Di Tella, R., "National Champions and Corruption: Some Unpleasant Interventionist Arithmetic", *Economic Journal* 1998; Mauro, P. "Corruption and Growth," *Quarterly Journal of Economics*, 110, 1995, 681-712; Mauro, P., *The Effects of Corruption on Growth, Investments, and Government Expenditures*, IMF Working Paper No. 96/98, 1996; Klitgaard, R., "International Cooperation against Corruption," *Finance and Development*, 35, 1998, 3-6. For a comprehensive account of causes and consequences of corruption see Rose-Ackerman, S., *Corruption and Government, Causes, Consequences and Reform*, Cambridge, MA: Cambridge University Press, 1999; Elliot K.A. (ed.), *Corruption and the Global Economy*, Washington DC: Institute of International Economics, 1997. Bhargava, V., *Challenging Corruption in Asia. Case Studies and Framework for Action*, Washington DC: The World Bank, 2004. See also the numerous additional studies of The World Bank. These studies have increasingly challenged the arguments of those who sustain that corruption may not be inconsistent with development; rather, it may foster it: bribery "greases the wheels of commerce" and can be an efficient way to circumvent inefficient and cumbersome regulations: if the prevailing system is bad the corruption can play a positive role (Leff, N., "Economic Development through Bureaucratic Corruption," *American Behavioral Scientist*, 8, 1964, 8-14; Leff, N. and Lui, F., "An Equilibrium Queuing Model Of Bribery", *Journal of Political Economy*, 93, 1985, 760-781; Gillis, M., "Episodes in Indonesian Economic Growth," in Harberger, A., *World Economic Growth*, San Francisco: ICS Press, 1984, 241). Apparent support for this argument is based on the evidence that some countries that rank high in surveys of the level of corruption have also high economic growth. For a given level of corruption, countries with more predictable corruption have higher investment rates. However, this evidence has been challenged by a World Bank study showing that even in these countries corruption can have an adverse impact on economic performance. In presence of less corruption, their level of investment could be higher (World Bank, *World Development Report. The Role of the State in the Changing World*, New York: Oxford University Press, 1997, 99-109).

<sup>4</sup> Nye, J., "Corruption and Political Development: A Cost-Benefit Analysis," *American Political Science Review*, 61, 1967, 427; Klitgaard, R., *Controlling Corruption*, Berkeley: University of California Press 1988; Galeotti, G. and Merlo, A., "Political Collusion and Corruption in a Representative Democracy," *Public Finance*, 49, 1994, 232-243; Hepworth, N. "Fraud and Corruption," *Public Money and Management*, 15, 1995, 4-6; Jones, P., *Combating Fraud and Corruption in the Public Sector*, London: Chapman and Hall, 1993; Goodman, T., "Political Corruption, The Payoff Diminishes" *American Enterprise*, 5, 1994, 19-27; Teobald, R. *Corruption, Development and Underdevelopment*, Basingstone, UK MacMillan 1990. Ocampo, L.M., "State Capture: Who Represent the Poor?" *Development Outreach*, World Bank Institute, Winter 2001.

<sup>5</sup> For an extensive account of corruption in construction, see Transparency International, *Global Corruption Report 2005*, [www.transparency.org](http://www.transparency.org).

The consequences can be devastating. In earthquake zones, corruption in construction often causes injuries and deaths.

Potential for corruption is recognized in cases of conflict of interests both in public and in private sectors. A modern public sector which works more and more closely with the business and non profit-sectors in various new ways, such as public/private partnership, outsourcing, interchange of personnel and sponsorship, is vulnerable to new forms of conflicts of interests which can result in corruption if not properly addressed by governments and private sector alike. Some examples are: a public official negotiates future employment in business or an non-governmental organization prior to leaving public office; a regulatory agency becomes too close to the business entities that it is supposed to supervise; an accounting firm offers both auditing and consulting services to the same client; public officials' decisions during public procurements are driven by private financial interests, family relationships and post employment. Today, because of the frequent recourse to the private sector by public administrators and the increasing complexity of the contracts, monitoring and oversight have become very difficult, thereby providing even more opportunities for undue behavior.

Worldwide, both governmental and non governmental international institutions dedicate particular attention to this global phenomenon by undertaking specific vigorous initiatives to control it. Numerous studies have supported their action<sup>6</sup> by revealing that corruption, wherever it is widespread, can be a serious obstacle to economic development and pro-democracy reforms; it increases social inequity and undermines political legitimacy. Worldwide, it is recognized that the success of reforms depends on good governance which improves transparency, accountability and reduces corruption. The quest of good governance exercises pressure on national and local governments to ensure the honest and transparent management of public funds.

Anti-corruption reforms appear on the agenda of many governmental and non governmental entities, both in developed and developing nations: Italy and China, for example. Italy is widely known as the birthplace of the 1990s anticorruption revolt (known as "manipulate," *clean hands operation*) conducted by a group of Milanese magistrates. The result of the revolt was the collapse of the Italian political system and the beginning of a new era of reforms. In Italy, new measures have been adopted to revitalize privatization and market competition, while laws and regulations are being set to transfer political power and administrative responsibilities to local authorities and ensure transparency, integrity and efficiency of government action. However, corruption appears to be alive and flourishing in a more sophisticated and complex manner also in its way of penetrating the international environment. It is more risky and therefore it demands more gains. It requires advanced skills and technologies as well as greater cooperation among larger groups of people. Collective

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<sup>6</sup> The recent growing interest in institutional issues by development economists has greatly expanded the research on corruption. The fundamental theory used is that of the *principal-agent*: corruption occurs when an agent betrays the principal's interest in pursuit of his/her own. The model includes the giver of the bribe, the client, who corrupts the agent in order to obtain the favor. Corruption is regarded as an opportunistic (self-interested) behavior of two or more players (*the client* and *the agent*) which collude at the expense of a third party (*the principal*). Also the *network theory* has been used to understand how organizations share information and how government agencies interact with other agencies and with private sector organizations. A network is an institution linking organizations or persons, not necessarily in a hierarchical relationship. This relationship may have different purposes: joint decision-making, information sharing, or advocacy. Each organization affiliated with a network has its own goals, but the goals of the network change over time through a process of give-and-take. While principal-agent theory has its roots in economics, the network theory originates in sociology.

corruption, corporate crimes, and organized crime appear to be well active in Italy as well as in other countries, like China.

China, is now experiencing its “third wave” of economic, institutional and social reforms. Economic marketization and power decentralization are the principal features. A recent study has shown that in this country “contrary to the conventional wisdom, new and different, if not more corruption has occurred in recent years despite the gradual shrinking of non-market element in the economy.”<sup>7</sup> The market reform and the process of decentralization have not reduced corruption as much as altering its forms and characteristics. Today’s corruption in China often results from direct economic activities of public officials at different levels of governments<sup>8</sup> and the enactment of a series of *Codes of Conducts* for public officials have not proved to be an effective tool to combat corruption.<sup>9</sup>

The relationship between corruption and reform is not a clear-cut issue. Both in Italy and in China anti-corruption efforts are not delivering the expected results. Why? The paper argues that in Italy the reason in part lays in the incompleteness of reform which must take into account the historical and cultural elements (political, societal, and administrative) of the society where corruption lives and prospers. The same argument seems to be at the core of numerous studies undertaken with regard to China which recognize the incompleteness of reform and advocate political and administrative reforms directed to build a sound “ethic infrastructure” in the country’s societal fabric.<sup>10</sup>

The first part of this paper discusses the issue of corruption at a global level by focusing on the international action to control this phenomenon. Major concrete initiatives undertaken by governmental and non-governmental international bodies to fight corruption are examined. Particular attention is given to effort of the *World Economic Forum*, *Transparency International*, and the *Center for Public Integrity*. The discussion focuses on formal aspects taken into consideration by these international organizations, such as the various components of the economic policies and the legal systems of the countries taking into consideration the economic indicators of the countries and the views of well informed people and experts. Transparency International Corruption Perception Barometer, however, is an additional tool that measures the opinion of the general public. According to these analyses, Italy is a country where numerous anticorruption mechanisms appear to be in place but the effectiveness of these mechanisms is not satisfactory in controlling corruption. Then, the question arises: do these analyses capture the problems of Italy with respect to corruption? What are the causes of unsatisfactory implementation? The second part of the paper discusses the cultural features of the country to answer these questions and opens a discussion about the case of China where anticorruption reforms appear to be ineffective as well. In this country, the reasons for unsatisfactory

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<sup>7</sup> Gong, T., “New Trends in China’s Corruption: Change amid Continuity,” in Dittmer, L. and Liu G. (eds.), *China’s Deep Reform*, New York, Toronto, Oxford: Rowman & Littlefield Publishers 2006, 465-456. See also Gong, T. *The Politics of Corruption in Contemporary China*, Westport, CT: Praeger, 1994; Xiaobo, L., *Cadre and Corruption: The Organizational Involution of the Chinese Communist Party*, Stanford, CA: Stanford University Press, 2000; Sun, Y., *Corruption and Market in Contemporary China*, Ithaca, NY: Cornell University Press, 2004.

<sup>8</sup> Shue, V., “State Power and Social Organization in China,” in Migdal, J., Cobli, A. and Shue, V., *State Power and Social Forces: Dominations and Transformation in the Third World*, New York: Cambridge University Press, 1994, 65-88.

<sup>9</sup> Ma, S.K., “The Culture of Corruption in Post-Mao China,” in Caiden, G.E., Dwivedi, O.P. and Jabbra, J., *Where Corruption Lives*, Bloomfield, CT: Kumarian Press, 2001.

<sup>10</sup> Ohi, J. C., *State and Peasants in Contemporary China. The Political Economy of Village Government*, Berkeley: University of California Press, 1989. Gong, T. reinforces this argument in her recent publication “New Trends in China’s Corruption.”

implementation are different and require a specific historical and cultural country research which is not contained in this paper.

### Global Fight against Corruption

Corruption has taken different forms and dimensions over time in all parts of the world. Through centuries, it has been discussed and addressed in various political and economic environments, in private and public spheres, both locally and nationally. The awareness that corruption has reached a global dimension being a powerful threat against economic development, democracy, peace and stability in all parts of the world is fairly recent. Two major global gathering have played an important role in coalition building against corruption: the *International Anti-corruption Conference (IACC)*, first held in 1983, which gathered a wide range of anti-corruption stakeholders (governments, international institutions, civil society organizations, the media), and the *Global Forum*, first held in 1999, which gathers government ministers, experts, multilateral institutions, and leading civil society organizations. Since the beginning of 1990s several international organizations vigorously expressed preoccupation and took specific concrete steps in addressing this phenomenon setting the agenda of many governments. Among these steps, particular attention is given to the development of internationally comparable measures of governance or corruption.

#### Action by International Governmental Organization

In May 1997, the *Organization for Economic Cooperation and Development (OECD)* adopted a recommendation for a convention which would criminalize international bribery.<sup>11</sup> The *Convention on Combating Bribery for Foreign Public Officials in International Business Transactions* was signed in Paris in December 1997 and entered into force in February 1999. The most relevant part of this convention is that it imposes criminal penalties on those who bribe foreign public officials to obtain business deals. This convention represents the first tangible international action in this area. Subsequently, many other initiatives have been undertaken by the OECD. Among those worth mentioning is the adoption of a *Recommendation on Improving Ethical Conduct in the Public Service* in 1998, which was followed by the *Guidelines for Managing Conflict of Interest in the Public Service* issued in 2003.

In March 1996, the executive board of the *International Chamber of Commerce* adopted a report proposing stringent rules of conduct for corporate self-regulation and adding recommendations for governments and international organizations. At the same time, both the *World Bank* and the *International Monetary Fund (IMF)* announced imminent action against corruption. In December 1996, the United Nations General assembly approved a declaration calling on member States to take concrete and effective action against corruption. Also the *World Trade Organization (WTO)* at its first ministerial meeting in Singapore manifested the urgency of undertaking a study on transparency and due process in government procurement contracts. In October 2003, the *United Nations (UN)* General Assembly adopted the *Convention against Corruption* which entered into force in December 2005. The Convention requires countries to establish criminal and other offences to cover a wide range of acts of corruption, if these are not already crimes under domestic law. The Convention goes beyond previous instruments of this

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<sup>11</sup> Elliot, K. A., *Corruption and the Global Economy*, Washington DC: Institute for International Economics, 1997, 2.

kind, criminalizing not only basic forms of corruption such as bribery and the embezzlement of public funds, but also trading in influence and the concealment and laundering of the proceeds of corruption. An entire chapter of the Convention is dedicated to prevention, with measures directed at both the public and private sectors. These include model preventive policies, such as the establishment of anticorruption bodies and enhanced transparency in the financing of election campaigns and political parties.

In the American continent, the first summit of the heads of States and Governments of the *Organization of American States (OAS)*,<sup>12</sup> held in Miami in 1994 targeted the issue with vigorous determination. As a result of the commitment undertaken in that occasion, and subsequent analyses and deliberations, the Nations of Americas adopted in March 1996 *the Inter-American Convention against Corruption*.

In Europe, the *European Council* adopted a Resolution in 1998 authorizing the establishment of the "*Group of States against Corruption - GRECO*" in the form of a partial and enlarged agreement. GRECO was set up on 1 May 1999 by Resolution adopted by the following States: Belgium, Bulgaria, Cyprus, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Lithuania, Luxembourg, Romania, Slovakia, Slovenia, Spain and Sweden. Later on many other States, including UK and USA joined the Group. According to its Statute, the aim of the GRECO is to improve its members' capacity to fight corruption by monitoring the compliance of States with their undertakings in this field. In this way, GRECO contributes to identifying deficiencies and insufficiencies of national mechanisms against corruption, and to prompting the necessary legislative, institutional and practical reforms in order to better prevent and combat corruption. GRECO is responsible, in particular, for monitoring observance of the "Guiding Principles for the Fight against Corruption" and implementation of the international legal instruments adopted in pursuit of the *Program of Action against Corruption (PAC)*. As of 2005, three such instruments have been adopted: the *Criminal Law Convention on Corruption* and the *Civil Law Convention on Corruption* adopted in September 1999, and *Recommendation on Codes of Conduct for Public Officials*, adopted in May 2000.

In Asia, the *Asian Development Bank (ADB)* and the *OECD* have pledged to support the *Anti-corruption Plan* for Asia and the Pacific established in 2001. The plan establishes a non binding framework based on the three pillars: 1. developing transparent and effective systems of public service; 2. strengthening anti-bribery actions and promoting integrity in business operations; 3. supporting active public involvement. The implementation plan outlines the core principles and procedure that should guide the process of putting the pillars into practice. The whole project serves as a forum to provide information exchange and a dialogue with stakeholders. Twenty-five countries have endorsed the plan as of June 2005. Among other initiatives, it is worth mentioning the World Bank country initiatives in governance and anti-corruption as well as the efforts of the World Trade Organization (WTO) to promote its *Agreement on government procurement*, and *Financial Aid Task Force*.

In Africa, the *African Union (AU)* has adopted the *AU Convention on Preventing and Combating Corruption* in July 2003. It has not yet entered into force due to the lack of sufficient ratifications. Among other things, it contains mandatory provisions for transparency of political

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<sup>12</sup> AOS is an international organization comprised of 35 member States of the American continent, including the Caribbean nations. The OAS charter was signed in Bogota, Colombia, and entered into force in 1951. Its nature is political and juridical, rather than economic and financial. Its mission is to guarantee continental peace and security, preserve, promote and strengthen democracy and the rule of law, and promote and defend human rights.

party funding, declaration of assets and restriction of immunity for public officials, and deals with private-to-private corruption.

### Action by the World Bank

The World Bank is involved in numerous anti-corruption activities through the work of World Bank Institute (WBI) in collaboration with many units in the World Bank Group. The main focus is on minimizing corruption on World Bank-funded projects, and assisting countries in improving governance and controlling corruption. The WBI conducts empirical diagnostic surveys as well as operational research and learning programs. Within this comprehensive effort, the WBI has developed aggregate governance indicators that now cover more than 200 countries. They are based on more than 350 variables obtained from several institutions worldwide and cover six dimensions of governance: 1. Voice and accountability (political civil and human rights); 2. Political instability and violence (the likelihood of violent threats to government, including terrorism); 3. Government effectiveness (the competence of bureaucracy and the quality of public service delivery); 4. Regulatory burden (incidence of market unfriendly policies); 5. Rule of law (quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence); 7. Control of corruption (the exercise of public power for private gains, including both petty and grand corruption, and state capture).<sup>13</sup> The Governance Team of the WBI has been involved over the past few years in diagnostic work in several countries.<sup>14</sup> They have also started to develop indicators for monitoring governance over time and find trends. These new indicators span over an eight-year period, from 1996 to 2004. Their study has found little evidence of systematic improvements in regional averages for governance in most regions.<sup>15</sup>

### Action by Major International Non-governmental Organizations

#### *Freedom House*

The oldest major non-governmental organization is *Freedom House*, a non-profit organization that supports the expansion of freedom around the world. It was founded after the Second World War by Eleanor Roosevelt and other Americans. Freedom House promotes freedom, democracy, and the rule of law through its analysis, advocacy, education, and training initiatives. Since its founding, Freedom House has vigorously opposed tyranny and given support to world's young democracies that have to cope with the legacies of tyranny and dictatorship. Freedom House's annual publications focus on global trends in democracy and draw public attention on dictatorships and abuse of political power. *Freedom in the World*, *Freedom of the Press*, *Nations in Transit*, and *Countries at the Crossroads* are regularly used as references by

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<sup>13</sup> Kaufmann, D., "Myths and Realities of Governance and Corruption," World Economic Forum, *The Global Competitiveness Report 2005-2006*, New York: Palgrave MacMillan, 2006, 81. In developing corruption-control indicators the World Bank uses original surveys sources which include DRI/McGraw-Hill, The Economist Intelligence Unit, the Political-Risk Services Group, and the World Bank Business Surveys.

<sup>14</sup> Information on the status of the governance diagnostic work around the world are provided by both *Country Links* which is a list of in-depth country pages that collect not only the diagnostic survey results and the reports, but also follow-up initiatives developed and implemented locally, and *Survey Reports* which shows the diagnostic surveys and reports for five countries.

<sup>15</sup> Kaufmann, D., Kraay, A., Mastruzzi, M., "Governance matters IV: new data, new challenges," 2006 Global Transparency Report, 304-307.

international journalists, press freedom advocates, policy-makers, non-governmental organizations, the US government, and the global business community.

Freedom House's surveys are essentially concentrated in political and civil liberties and freedom of the press. They provide some of the criteria used by the US government to implement the *Millennium Challenge Account (MCA)* which is a pool of foreign aid that will be given only to countries whose leaders "rule justly, invest in their people and encourage economic freedom." In May 2004 the MCA announced the first 16 countries eligible to apply for funds.

A recent Freedom House survey of governance in 30 underperforming states has shown that countries with low performance have weaker governance, government's transparency and anti-corruption effort.<sup>16</sup> The survey combined four core components in narrative and numerical form: *Civil liberties*, *Rule of law*, *Anti-corruption and transparency*, and *Accountability and public voice*. The corruption indicator rather than measuring corruption in each country, is focused on the government environment and how it might encourage or suppress corruption. The four subsections of anti-corruption and transparency are: 1. The environment to protect against corruption; 2. The existence of laws, ethical standards and boundaries between private and public sectors; 3. The enforcement of anticorruption laws; 4. Governmental transparency. The latest Freedom House Reports are those of 2006.

### *Transparency International*

The leading non governmental organization specifically devoted to combating corruption is Transparency International (TI). It was established in 1993 in Berlin and operates at both the international and national level through 99 independent National Chapters around the world. It promotes ratification and implementation of relevant conventions against corruption, advocates policy reform and monitors compliance both in private and public sectors. To this end, it develops reliable quantitative diagnostic tools to measure the levels of transparency and corruption in various countries. The annual TI *Corruption Perception Index (CPI)*, first released in 1995, is the best known of TI tools. In addition, TI has developed other measures of corruption: the *Bribe Payers' Index (BPI)* and the *Global Corruption Barometer (GCB)*.

The CPI aggregates the perception of well-informed people with regard to the extent of corruption, defined as the misuse of public power for private benefits (i.e. bribing of public officials, kickbacks in public procurement, embezzlement of public funds). The CPI is a Composite Index since it relies on multiple data sources of different institutions<sup>17</sup> which provide a ranking of nations in measuring the overall level of corruption. Some sources provide one recent survey, while others a three-year span surveys. Methodological upgrades and innovations are introduced continuously. An example is the expansion of the index from 133 to 146 countries in 2004, and up to 159 in 2005. Comparisons with the results from previous years should be based on country's score, not its rank. The country's score are determined in a scale of 0 to 10, with 0 signifying highly corrupt and 10 highly clean. However year-to-year comparisons on a

<sup>16</sup> Repucci, S., "A survey of governance in 30 underperforming states" Transparency International, 2005 *Global Corruption Report*.

<sup>17</sup> The World Economic Forum, The Institute of Management Development (in Lausanne); the Economist Intelligence Unit; Information International from Beirut (Lebanon); the World Markets Research Centre (in London); Gallup International, on behalf of Transparency International; Freedom House's surveys; the Merchant International Group limited (in London); the Political and Economic Risk Consultancy (in Hong Kong); the Columbia University; a multilateral development bank; the Business Environment and Enterprise Performance Surveys of the EBRD and World Bank.



country's score not only result from a changing perception of a country's performance, but also from a changing sample and methodology.

In responding to the growing demand for trend data, after ten years of the CPI, a first attempt in determining trends relating to developments between 1995 and 2005 has been accomplished. The data show the annual improvement or deterioration of the CPI index for each country where some specified data sources provided at least fifteen observations.<sup>18</sup>

The *Bribe Payers' Index (BPI)* ranks corruption by source country and industry sector. *The Global Corruption Barometer* first appeared in 2003 as a public opinion survey of perceptions, experiences and attitudes toward corruption. It is prepared for IT by Gallup International, as a part of their *Voice of the people survey*. The barometer is based on interviews of general public in a large number of countries (60 countries in 2004 and 69 in 2005).

Transparency International has been active in laying down general industry anti-bribery principles, by publishing, in partnership with Social Accountability International, the "Business Principles for Countering Bribery" in 2002. Later on, these principles have been revised and expanded by a multinational Task Force working with the World Economic Forum, Transparency International and the Basel Institute of Governance (*Partnering Against Corruption- PACI*). The *PACI principles* are intended to provide a framework for good business practices and eliminate bribery. The first PACI Country Signatory Network was launched by the American Chamber of Commerce in Romania on July 2006. The signatory countries commit themselves to the adoption of a *zero tolerance* policy on bribery and the development of a practical and effective internal program for implementing that policy. This document has received a widespread international consensus (The World Bank, The Inter-American Development Bank, The European Bank for Reconstruction and Development, the Asian Development Bank will require, among other things, an *Anti-bribery Certificate* from bidders on large contracts) and by the middle of August 2006 over 100 companies have signed in.

### *Center for Public Integrity*

A relevant contribution on public policy and governance reforms is given by the *Center for Public Integrity*, an international non-profit organization founded in 1989. Its major task is to conduct analyses on public policy issues in the US and around the world. With the cooperation of the *International Consortium of Investigative Journalists (ICIS)* it has published reports (investigative reports) on corporate crimes, arms trafficking, terrorism, and human rights. The Center has developed a *Global Integrity Index* and issued reports on openness, accountability and the rule of law in various countries (*Global Integrity Reports*). The Public Integrity Index which appears in the Global Integrity Report provides a quantitative scorecard of governance practices in a number of countries (25 countries as 2004). The public integrity index does not measure corruption in itself; rather it "focuses on institutions and practices that citizens can use to hold their governments accountable to the public interest."<sup>19</sup> The choice of the countries was made to create a global sample with geographic, economic and political diversity. Besides the most

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<sup>18</sup> Lambsdorff, J. Graf, "Ten years of the CPI: Determining Trends," 2006 *Global Corruption Report*, 292-328. [www.transparency.org](http://www.transparency.org); Lambsdorff, J. Graf, "Determining Trends for the Perceived Level of Corruption," Passau University Discussion Paper, 2005, V-38-06

<sup>19</sup> Camerer, M. and Werve, J., "The Public Integrity Index: assessing anti-corruption architecture," Transparency International, *Global Corruption Report 2005*, 252-54.

populous democracy in each continent, the sample includes countries from Africa and Latin America. The index assesses the national governance framework without taking into consideration local authorities.

In particular, the *Public Integrity Index* measures the existence of public integrity mechanisms (including laws and institutions that promote public accountability and limit corruption), the effectiveness of these mechanisms, and the access that citizens have to public information to hold public officials accountable. As of 2004, the index is composed of 80 main indicators and 212 sub-indicators. They fall into six main categories (*1.Civil society, Public information and media; 2.Electoral and political process; 3.Branches of Government; 4.Administration and civil service; 5.Oversight and regulatory mechanism; 6.Anti-corruption mechanisms and rule of law*) and 21 sub-categories.<sup>20</sup> Both categories and indicators were chosen on the basis of a comprehensive survey of the academic literature on anticorruption safeguard. The index is based in peer-reviewed expert assessment.<sup>21</sup> Countries are grouped into five broad scoring tiers that reflects an assessment of the strength or weakness of a country's public integrity system: very strong (90-100); strong (80-90); moderate (70-80); weak (60-70); very weak (less than 60). Therefore, the index involves qualitative country studies of integrity systems whose findings are then transformed into scores and ranking. The scores are diagnostic and not at all intended to shame poor performers. They serve as a useful information tool both for governments and civil society to act for improvement with particular attention to anticorruption reforms.

### *World Economic Forum*

From a wider view with prevalent economic standpoint, the *World Economic Forum* (WEF) engages leaders both of private and public sectors to shape global, regional and industry agendas. The WEF is an independent non-profit international organization incorporated as a foundation in 1971, and based in Geneva, Switzerland. It is also dedicated to research programs, such as *Global Competitiveness Network* and *Global Risk network*. Through its reports and activities, the Global Competitiveness Network identifies impediments to growth and thereby helps stimulate the development of relevant strategies to achieve sustained economic progress.

The WEF issues the *Global Competitiveness Report* (GCR) which is the most comprehensive and authoritative assessment of the comparative strengths and weaknesses of national economies, used by governments, academics and business leaders. The *Global Competitiveness Index* is composed of nine pillars grouped in three sub-indexes: *1. Basic requirements (Institutions, Infrastructure, Health and Primary Education); 2. Efficiency enhancers (Higher Education and Training, Market Efficiency, Technological readiness); 3.*

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<sup>20</sup> 1. Civil society organizations, access to information law, freedom of the media  
2. National elections, election monitoring agency, political party finances  
3. Executive, Legislature, Judiciary  
4. Civil service regulation, whistle-blowing measures, procurement, privatization  
5. National ombudsman, supreme audit institutions, taxes and customs, financial sector regulations  
6. Anti corruption law, anticorruption agency, rule of law and access to justice, law enforcement.

<sup>21</sup> The lead social scientist in each country assigned an initial score to each indicator. To get to the final score the indicators, comments and references generated by the lead social scientist are critically reviewed by a panel of experts familiar with the country, and then consolidated by the central scoring team in Washington. Each indicator score is averaged within its parent category, to produce a subcategory score. The subcategory score is in turn averaged with the other subcategory scores in a parent-category; category scores were finally averaged to produce a country score.

*Innovation factors (Business sophistication, Innovation).* This report is supported by the *Executive Opinion Survey (EOS)* that captures the experts opinion of over 10,000 business leaders and entrepreneurs on macroeconomic environment, technology, innovation and diffusion, human resources (education, health and labor), general infrastructure and public institutions (contracts and law, corruption). These surveys, conducted every year for 117 countries, cover several dimensions of governance and corruption both in private and public spheres (which include judicial independence; favoritism in decisions of government officials; diversion of public funds; bribery involving private firms, multinationals and public officials; determinants of governance at the city level). The *Growth Competitiveness Index* and *Business Competitiveness Index* are extrapolated from results of the EOS. The first one is composed of three components: Technology index, Public Institutions index and the Macroeconomic Environment index. The Business competitiveness index focuses on the microeconomic factors that are critical to the business community. It specifically measures two components: the sophistication of company operations and strategy, as well as the quality of the national business environment. For all indexes the scores are on a scale of zero to seven.

### **Scores and Ranking of Italy by the World Economic Forum, by Transparency International and the Center for Public Integrity**

According to the *Global Competitiveness Report 2005/06* of the WEF (which includes 117 countries), the *Global Competitiveness Index 2005* ranks Italy 38th, with an overall score of 4.47. However, if one considers the first pillar of this index, namely “Institutions,” which is relevant for the present study, the ranking is 55, with a score of 3.77. Furthermore, according to the *Growth Competitiveness Index*, Italy’s ranking is 47 (the same as the previous year), with a score of 4.21, and a comparison of the same indexes over the last five year shows that there has been a downward trend. This trend is due to various factors. First, Italy’s public sector accounts have deteriorated. Both budget deficit and the level of public debt are high, being respectively 4 per cent of GDP and well above 100 percent of GDP. In addition, growth performance has been decelerating. As for technology, Italy is well below the corresponding ranking for its G7 partners in the EU (44<sup>th</sup>). With respect to institutions index, Italy has a low ranking of 68<sup>th</sup> in the general category of contract and law environment. The opinion of the business community in the survey shows particular concern for the high cost imposed by organized crimes on Italian business (103<sup>rd</sup>), for the lack of competition in public procurement due to the perception that government favors well connected firms and individuals (72<sup>nd</sup>), and for the weak independence of the judiciary (59<sup>th</sup>).<sup>22</sup> The latest *Global Competitiveness Report* (the 2006/07 report which includes 125 countries) the downward trend of Italy continues: Italy falls to the rank of 42 with a score of 4.46. With reference to the Institutions pillar, the ranking falls to 71, with a score of 3.66. The same trend is reported for the *Growth Competitiveness Index* and the sub-index of ‘Contract and Law and corruption’.

Discouraging data with respect to Italy also come from Transparency International. According to the 2005 *TI Corruption Perception Index*, Italy has performed relatively poorly with its score of five (4.8 in 2004) in a scale of zero to ten, where zero means highly corrupt and ten highly clean. It ranks 40th in a group of 159 countries with a global average score of 4.11. Among the 25 EU countries plus Iceland, Norway and Switzerland (total of 28 countries), Italy

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<sup>22</sup> World Economic Forum, *Global Competitiveness Report 2005/2006*, New York: Palgrave MacMillan, 2005, 16.

ranks 21st with a regional average score of 6.67. However, the recent determination of trend data over a 10 year period 1995-2005 conducted by TI has shown significant improvements for Italy which scored an annual positive change of 0.09, the third highest in all countries considered. However, over the last five-year period, the annual change decreases to 0.04.

With the purpose of adding an interesting data on public opinion in Italy with respect to corruption, according to the *Global Corruption Barometer 2004* and that of 2005, 65 percent of Italians believe that their personal and family life is not affected by corruption. This appears to be inconsistent with the rest of the results of the questionnaire where a large majority of them think that politics, administration and the economy are adversely affected by corruption and that this situation is there to stay in the future. From these data, one may capture a sense of resignation on the part of the Italian people with respect to corruption as if it were a physiological defect of the Italian society, rather than a disease to be cured, and because of that, over time Italians have learned how to handle it in some way. Additional relevant information of the results of the Global Corruption Barometer is that in Italy the Gallup Pool has not yet asked the final questions of the surveys concerning the actual experience of having been requested to pay a bribe and having actually paid it. In this respect, unlike the results related to other countries, the barometer fails to give a real picture of the presence of corruptive practices in Italy. The answer to this part of the questionnaire would have been very helpful for a realistic picture of the diffusion of corruption in Italy, not only of the perception of that diffusion.

At a first glance, the results of previous measurements of informed experts (GCI and CPI) are in stark contrast with the scores conducted by Center for Public Integrity with regard to Italy<sup>23</sup>. According to the *Public Integrity Index* which tracks corruption, openness and accountability in 25 countries, Italy has been considered a “strong” country in 2004, meaning that in this country an overall strong system of integrity mechanisms is in place. If we consider the six main categories individually, Italy scores “very strong” in three categories: Civil Society, Public Information and the Media; Oversight and Regulatory Mechanisms; Anti-corruption Mechanisms and the Rule of Law. However, this positive scenario has some dark clouds. In fact, we find that “Administration and Civil Service” score “weak,” and in some of its subcategories “very weak.” The reason for that is explained in the report by the country’s data and assessments. In Italy, there are no specific rules to prevent nepotism, cronyism or patronage. There are no regulations concerning gifts and hospitality, conflict of interest and movement from the public to private sector. One additional relevant weakness is the lack of whistle-blowing regulations or other specific internal mechanisms for reporting corruption both for public and private employees. As for the category of “Branches of Government,” the score is “moderate” with the subcategories of the Executive and the Judiciary scoring “weak.” Specifically, there is no agency with a specific mandate on corruption (an anti-corruption organism was created after the publication of the Public integrity index in 2004). In addition, only the Head of the State has absolute immunity. All other members of the Executive and Legislature are accountable for any crime they commit. A law passed in June 2003 states that judicial action must be suspended until the end of the mandate, if the Head of the State, the Prime Minister, the Presidents of the two Chambers of Parliament, and the Head of the Supreme Court are accused. However, this law was struck down by the Supreme Court in 2004. As for the Judiciary, although judges are selected by a competitive examination, there is no confirmation process for high court judges. Furthermore no national ombudsman is contemplated. Nor is there a program to protect witnesses in

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<sup>23</sup> See table 1.

corruption cases. As for the Legislature, there is no rule governing conflict of interest. Italian law only requires that members of Parliament disclose their assets and make the information available to the public.

**Table1. Scores and Ranking of Italy by WEF, TI, and the Center for Public Integrity**

● <b>WEF Global Competitiveness Index 2005:</b>		<b>Rank</b>	<b>38/117</b>	
			<b>Score</b>	<b>4.47</b>
	INSTITUTIONS sub-index	Rank	55/117	
			Score	3.77
● <b>WEF Growth Compet. Index 2005:</b>		<b>Rank</b>	<b>47/117</b>	
			<b>Score</b>	<b>4.21</b>
	Contracts and Law sub-index	Rank	68/117	
			Score	3.66
	Corruption sub-index	Rank	32/117	
			Score	5.74
NOTE: The scores for all indexes are in a scale of 0 to 7. The opinion of the business community in the survey shows particular concern for the high cost imposed by organized crimes on Italian business (103rd), for the lack of competition in public procurement due to the perception that government favors well connected firms and individuals (72nd), and for the weak independence of the judiciary (59th).				
● <b>TI Corruption Perception Index 2005</b>		<b>Rank</b>	<b>40/159</b>	
			<b>Score</b>	<b>5.0</b>
● <b>Public Integrity Index 2004</b>		<b>Strong</b>		
	ANTI-CORRUPTION MECH. Sub-index	Very Strong		
NOTE: The score of TI is in a scale of 0 to 10, where zero means highly corrupt and ten highly clean.				

Other categories and subcategories of the report score high grades. Specifically, in Italy, the Constitution of 1948 guarantees the right of free meeting, without previous authorization, for any purposes not forbidden by criminal law. The Constitution also guarantees the right to form and participate in Trade Unions. There are no barriers for the creation of Civil Society Organizations (CSOs). With regard to the political process, as a result of the “Clean Hands Operation” in 1997, new rules were implemented to regulate the funding system for political parties and the disclosure of financial records. The Italian law criminalizes corruption. Money laundering, organized crime, using confidential State information for private gains, and using public resources for private advantages are all considered crimes under the Criminal Code.

Overall, the Center for Public Integrity represents Italy as a model country as for the adoption of a coherent regulatory system to control corruption, enhance transparency and accountability. A great part of the internationally recommended mechanisms appear to be in place for strengthening good governance and combating corruption. However, Italy does not seem to be a model in relation to the effectiveness of this system especially in controlling corruption, according to the analyses conducted within the WEF and TI. The perception by experts and the general public is that, despite reforms, corruption in Italy is still strong and widely diffused.

## Weaknesses and Strengths of International Comparisons

A comparison among the scores of the above measurements is obviously limited, given the different approaches and methodologies used. However, all measurements complement each

other by providing a range of different perspectives in analyzing governance and corruption, which have been widely proved by scholarly studies to be significantly correlated. They all have weakness due to the difficulties of conducting a supra-national level of analysis and to the prevalent reliance on perceptions exposed in opinion surveys and not on objective data. However, recent studies within single countries have confirmed the international evidence. A research on corruption in the US examined the determinant of corruption using information on the number of public official convicted for corruption in each of the fifty American states. In general, the patterns documented in the data have shown the same basic relationships that have been found using international surveys.<sup>24</sup> All of these efforts are very useful because they serve the purpose, not only of spreading the awareness that corruption is bad and needs to be addressed seriously and effectively, but also of offering a more distinct picture of the various components and implications of this phenomenon for the countries considered. They also allow a comparison among countries within the same ranking, thereby inducing pressure for a domestic dialogue and action for improvements. These comparisons may guide further research on implementation of specific measures applied to combat corruption. One recent study conducted by the World Bank on laws regulating officials' assets declaration has found that the intention of laws does not necessarily translate into reduced corruption. What is relevant is how laws are structured. For example, there is an association between the level of corruption and the verification mechanisms provided, and between the level of corruption and threat of prosecution of those who break the laws.<sup>25</sup>

Taking into consideration international evidence, the picture for Italy reveals an implementation gap with regard to major reforms adopted and a widespread sense of disillusionment of the people based on the awareness that things continue to be as usual, even worse. Fifteen years have passed since the "Operation Clean Hands" and the vigorous public upheaval against corruption took place. Since then, an unprecedented succession of major reforms has occurred. At the same time, numerous scandals involving both private and public spheres have continued to adversely affect public confidence. Corruption, as a mutating insidious virus, still seriously threatens the economy, governments and society.

Why so? Several studies have shown that it is not sufficient to consider the assessment of the quality of governance, but it is also critical to look at the nature and the depth of corruption in a country. There is ample evidence that the effectiveness of anti-corruption measures depends in part on the governance environment in which they are applied. The more serious the corruption problems are in a country, the stronger the interests are in countering reforms.<sup>26</sup> Therefore, a good score in the quality of governance does not necessarily mean a good level of integrity.

The rest of the paper is dedicated to the specific experiences of Italy in various areas of governance by focusing on major features of the history and culture of the country, as well as by discussing significant recent events and governance reforms. It has been widely recognized by major international organizations that the Italian reform efforts have been truly remarkable: some programs have been eliminated or reformed (regulation and allocation of Government services, changes in social benefit programs); privatization programs, administrative and civil service

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<sup>24</sup> Glaeser, E. and Sacks, R., "Corruption in the United States of America," in Transparency International, 2005 *Global Corruption Report*, 308-314.

<sup>25</sup> Mukherjee, R. and Gokcekus, O., "Official assets declaration laws: Do they prevent corruption?" in Transparency International, 2004 *Global Corruption Report*, 325-328.

<sup>26</sup> Barghava, V. and Bolongaita, E., *Challenging Corruption in Asia. Case Studies and Framework for Action*, the World Bank, Washington DC 2004, 21-24.

reforms (that favor competition, transparency, and accountability), anti-corruptions laws and procurement reforms have been implemented. However, there is still ample space for improvements especially with regard to privatization and competition. As for corruption, critical weaknesses call for targeted intervention especially in the area of conflict of interests. A further major concern remains with respect to the Mafia (*Cosa Nostra* in Sicily), the most powerful organized-crime group in Italy, and to other criminal groups operating largely in the South, such as the *Camorra* (based in the area of Naples) and *Ndrangheta* (based in Calabria). They use not only bribery, but also threats and violence. These groups seek to corrupt law enforcement officials (police, prosecutors and judges) to ignore criminal law violations in exchange of undue payments. Their action often wants to gain monopoly power in the illegal market and use the resulting profits to infiltrate legal business (criminal infiltration) and win public contracts.<sup>27</sup>

### Overview of Public Governance in Italy: The Legacy of the Past and the Current Reform Effort

In this paper, it is not the intention of the author to make a comprehensive representation of the Italian history, culture and reforms. The following paragraphs illustrate the most relevant features that are considered useful for the present analysis and future research.

#### An Overview of History, Politics, and Culture: *Transformism*, *Clientelism*, and the Power of the Mafia

In Italy, since the birth of the State, politics was conducted by the elites without mass participation. Aristocracy orchestrated the Italian unification and the liberation movement from the external domination was a “passive revolution,” a revolution without a popular consent.

After the unification in 1861 and the end of the papal domination in 1870, the Italian industrialization did not start with the agricultural revolution of the more advanced countries (England) and the consequent elimination of feudalism. Feudalism survived and, in the absence of capital accumulation in agriculture, the banking system with the support of the State was the engine of industrialization. At the grassroots of Italian politics the situation was the following: in the North and part of the Centre, besides the labour unions, socialist and catholic movements (social Catholicism) became very active; in the South, instead, the vertical patron-client networks called *clientelism* was the socio-political feature which persisted long after WWII. The southern society, after centuries of despotic dominations, mistrusted their government and learned to think of their own personal and family interests.

From the unification to the end of WWI, the political scene was characterized by *Transformism*, a governing strategy used to form the widest possible coalitions of interests. It was a way of maintaining governments in office through temporary majorities and piecemeal reforms rather than radical changes. Peculiar alliances between the landlords of the South and the industrialists of the North were formed to obtain the widest possible consensus. A patronage system and the disbursement of the spoils of offices (*clientelism*) were widespread. All that ultimately prepared the way for the advent of fascism. The experience of Fascism and WWII was very traumatic. While the struggle between fascists and anti-fascist intensified, Italy changed

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<sup>27</sup> Rose-Ackerman, S., *Corruption and Government. Causes, Consequences and Reform*, MA: Cambridge University Press, 1999, 23.

sides in the war and fell into the orbit of the United States. After WWII, the Christian Democrats (DC) governed the country while the rest of the political spectrum was dominated by the Communists. The DC, under the influence of the United States, structured the political system so as to ensure for themselves the majority of parliamentary seats. They governed the country for forty-five years through a variety of alliances with small parties (center-left and center-right governments) and through a compromise that co-opted the Communists into the machine of power. The DC employed a democratic legal mechanism of the State in a relativistic and arbitrary way: both government parties and opposition parties were guaranteed a share of office. That means that parties shared key positions in the vast sector of public enterprises, in universities, in public TV and newspapers. At the same time, through inducements directed to prevent social upheavals and through political patronage and corruption, the DC built a stable constituency. People, instead of becoming estranged from the parties, sought “to use to their private advantage the party’s ability, if not to shape a policy, to influence a number of narrower day-to-day political and administrative processes.”<sup>28</sup> There has been a personal relationship between voters and representatives (*clientelism*) similar to that of a patron and a client in which the client implicitly barter his vote in return for protection and assistance of the patron. Voters asked personal favors and, in return, they committed themselves to giving their vote to the party which delivered the favors, or if appointed to the board of public enterprises, to advantage other supporters of the same party in choosing a contractor to that enterprise. Political patronage spread all over the society and public enterprises became highly politicized. The result was the production of a new class of entrepreneurs who only risked public money in endeavors chosen on the basis of political return, rather than economic return.<sup>29</sup> Within this picture, a perverse influential activity has been conducted by the Mafia (*Cosa Nostra*, *Camorra*, and *Ndrangheta*), powerful organized-crime groups which have been connected with politicians in exchange for votes for illicit enterprises, and have sought to corrupt government officials to obtain immunity for criminal law violation in exchange for payments. The South of Italy, which suffers from high level of unemployment, low productivity, scarce entrepreneurial spirit, and poor economic performance in general, has always been a favorable environment for corruption and organized crime.<sup>30</sup>

#### The “Clean Hands Operation”, Social Movements, and the Role of the European Union

In the 1990s, after the end of the Cold War and the collapse of the Soviet Union, social movements grew as a reaction against the overwhelming and corrupt power of the State and political parties. The League of the North (*Lega Nord*), The Network (*La Rete*), the Movement of Referenda (*Movimento dei referendari*) were born as popular movements committed to fight the worst evils of the Italian political system: corruption, mafia, abuse of public power, waste and inefficiencies. Various segments of civil society were eager to unveil to the public the perverse use of the legal apparatus of the State and to bring to court many politicians, business people, and public bureaucrats. They demanded reforms and supported a group of courageous determined magistrates to prosecute the widespread public mismanagement of funds due to political corruption (*clean hands investigation*). Political parties had shared the spoils of office,

<sup>28</sup> Poggi, G., *The State, Its Nature, Development and Prospect*, Stanford, CA: Stanford University Press, 1990, 141.

<sup>29</sup> Brosio, G., “I trasferimenti alle imprese”. in Gerelli, E. and Reviglio, F., *Per una politica della spesa pubblica in Italia*, Milano: Franco Angeli, 1977, 174.

<sup>29</sup> For a specific in-dept account of the Mafia in Sicily, Lupo, S., *Storia della mafia*, Roma: Donzelli editore, 2004.



rewarding their clients with jobs, contracts, and subsidies. Public money was also used by politicians to buy votes of the mafia-ridden South. All bribery cases fell into the name of category named *Tangentopoli* (bribesville). The Italian anticorruption revolt caused the demise of the political establishment that had run the country since the end of WWII. The two non-Communist mass parties, the DC and the PSI disappeared, while others split and changed their names. A new party, *Forza Italia* (Go Italy), entered the political scene under the leadership of Silvio Berlusconi, a media magnate. His center-right coalition won the elections in 1994, but his government lasted only eight months. The next three governments were headed by the center-left prime ministers before the return in power of Mr. Berlusconi after the 2001 elections.

In the 1990s, the era of reforms started under the influence of the European Community which encouraged gradual relaxation of protectionism, flexibility and competitiveness of the economies of its member States. The *European Economic Community (EEC) Treaty* signed in Rome in 1957 had envisioned from the outset the creation of a single, integrated market free of restrictions on the movements of goods, services, persons and capital. This goal required a degree of harmony in policies and rules, and monetary cooperation among member States. To reinforce this commitment and make it more realistic, the EEC Treaty was integrated with the Single European Act (1986), by the Treaty of European Union in 1991 (Maastricht Treaty), and by the Treaty of Amsterdam (1997). These additions to the original Treaty of Rome modified the economic policies of the community, its decision-making procedure, its institutional structure. In particular, the treaties imposed specific fundamental requirements of economic and monetary convergence among member countries. They created a timetable for the creation of an integrated economic space (single market) with free movements of capital, goods and persons, with its own central banking institutions and a common currency. They also empowered the EU Commission (the executive body of the Community) with the responsibility of achieving compliance with the Maastricht Treaty provisions. On one side, it was recognized that a single market could be built only if member states relaxed their close monitoring of internal economic activities through capital control, subsidies, and protectionist practices. Europe's single market needed a real change from a state-managed economic policy to a market-oriented one, under the supervision of reinforced European institutions. On the other side, it was also recognized that the original centralized model of harmonization needed to be substituted for a decentralized "mutual recognition" model which allowed national differences within fundamental basic obligations.<sup>31</sup> The Italian State as well as the other member States was called to enact legislation in accordance to these requirements.<sup>32</sup> The path to economic integration has led to the creation of the European Economic and Monetary Union (EMU) and the establishment of the European Central Bank (1998). Today, the participating European countries share a single currency (the Euro) and are subject to a single monetary policy run by a single independent central Bank. The ECB controls monetary policy and interest rates, while a "restrained" fiscal policy according to the Maastricht criteria is left in the hands of governments of each country. This new European setting, perceived by many as a risky adventure, was created to strengthen the existing institutional framework for the European monetary integration and the ECB was expected to be a catalyst for change by

<sup>31</sup> Khaler, M., *International Institutions and Political Economy of Integration*, Washington DC: the Brookings Institution, 1995, 90-91.

<sup>32</sup> Another important innovative element was the institutional reform which shifted to the Community additional decision-making power at the expense of Nation-States. Some decisions, once subject to unanimity vote, were brought under the qualified majority rule. In addition, it was instituted a co-decisional procedure between the Council of the Ministers and the Parliament which gave Parliament more say in the legislative field still reserved to the Council. See Urwin, D. W., *The Community of Europe*, London and NY: Longman 1995, 231.

forcing the member countries to further their reform processes toward economic and political cohesion. In Italy, the EMU has pushed Italy to change entirely its economic model. Instead of relying on high inflation, high budget deficits, and currency devaluation, government has been forced to recur to low inflation, low budget deficits and a fixed single European currency. The major role of the Euro in Italy is that it has brought to the surface the true weakness of the country.<sup>33</sup>

### Berlusconi's Government

The difficulties of the economic transformation of Italy have not been properly addressed by the Italian government. In 2001, Prime Minister Silvio Berlusconi started his mandate with great enthusiasm. Berlusconi's House of Liberty's coalition won ample majority in both Houses of Parliament. In his election campaign he promised major pro-market reforms to improve the country's economy. However, a great deal of his efforts have been diverted to defending himself in the legal cases brought against him because of the conflict of interest regarding his ownership of Italy's three main private television channels (Mediaset Television), publishing companies (Mondadori) and other. During his office, he has faced charges of tax fraud, false accounting, misappropriation of funds, tax evasion, bribery of financial police and judges. So far, Berlusconi has not been definitively convicted in all cases. Many argue that he has mainly focused on winning the majority in Parliament to enact laws directed to safeguard his personal interests. Specifically, in 2002 an act was passed to downgrade the offence of false accounting, by reducing the maximum prison sentence from five years to eighteen months, and to reduce the statute of limitations from fifteen years to half of that. In the same year, additional legislation was passed to complicate judicial cooperation and the use of evidence from abroad, and to allow defendants to seek transfer of their trials to another court if there is a legitimate suspicion that judges are biased (*Cirami Law*). To complete the picture, in 2003, a law was passed (but subsequently struck down by the Italian Constitutional Court) to give the Prime Minister, as well as the Presidents of both Houses of Parliament and the Head of the Supreme Court, immunity from prosecution while in office. Mr. Berlusconi contends, instead, that magistrates are politicized and he has been a victim of a leftist conspiracy. It has to be recognized, however, that unpopular reforms are very difficult to pass when each party in a coalition has a veto power and the interests that parties want to protect are greatly differentiated and often in conflict. In Italy, although the electoral system has increasingly become bipolar, the power of small parties is disproportionately strong. To complicate the political climate, in January 2006, the electoral reform of the 1990s which introduced a majority-vote system was changed to return to a proportional system corrected through the establishment of thresholds for representation in Parliament. Despite all that, three major reforms were enacted under Berlusconi's government regarding labor, pension, and education. In April 2006, as a result of the general elections, the coalition of the Left guided by Prime Minister Prodi took office.

### Different Types of Corruption in Recent Scandals

Italy has experienced corporate scandals that exploded in 2003, the most notable ones being the bond default of *Cirio* and the collapse of *Parmalat*, the global food and dairy conglomerates. This latter corporation fabricated assets to offset 16 billion US dollars in debt and

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<sup>33</sup> The Economist, *Addio Doce Vita*, a Survey of Italy, November 26<sup>th</sup>, 2005, 5.

liabilities over a fifteen-year span. Chief Executive Callisto Tanzi was arrested on charge of fraud, embezzlement, false accounting, and misleading investors.

In 2005, other disappointing news emerged. The longstanding credibility of the Bank of Italy has been challenged by the questionable behavior of its Governor Antonio Fazio who has supposedly opposed foreign takeovers of Italian banks by favoring Italian rival domestic bids, at the expense of international competition. In the case of the Italian *Banca Antonveneta*, through wiretaps, Fazio was recorded in revealing his endorsing of a bid by the Italian bank, Banca Popolare, run by a close friend, Gianpiero Fiorani to block a Spanish Bank. The matter is still under investigation by the Italian judges. However, Fazio was forced to resign and his successor, Mario Draghi took office at the beginning of 2006. As a result of that, a law has been enacted to reform the Bank of Italy and establish a term-limit for its Governor.<sup>34</sup>

Italy has also experienced relevant collective and organizational corruption occurred in the Italian National Health Systems (NHS) which is financed by taxpayers and provides all EU citizens with low-cost health care, and medical assistance, including hospitalization and surgery. The NHS system pays for all or part of the majority of drugs prescribed by doctors. The more the family doctors prescribe drugs to their patient, the higher the profit the pharmaceutical companies extract from their sales.<sup>35</sup> A police investigation in 2003 accused the pharmaceutical giant GlaxoSmithKline of allocating millions of dollars for bribing thousand of doctors to induce them to prescribe their products. All kinds of bribes were used, from cash to gifts to holiday vacations to invitation to symposia. Many people have been investigated and charged, managers in the Glaxo offices in Verona, as well as surgeons and doctors. Furthermore, several other cases of fraud against the National Health System in the form of false prescriptions to patients who never existed or were dead have been brought to justice. Other more recent cases of corruption in the health sector were related to awarding service and repairs contracts bypassing laws and regulations under the pressure of national and local political figures.

Frequent cases of corruption have also been reported in public construction as a result of the action of organized crime. Traditionally *Cosa Nostra*, *Camorra*, and *Ndrangheta*, have been active in extortion, racketeering, theft and smuggling. Later on, they shifted to drug trade, gambling, people trafficking and the construction industry. Money laundering and illicit investment in the construction trade have been natural consequences of the vast sum accumulated in the conduct of these businesses. From the first Republic 1948, Cosa Nostra and the Camorra developed strong links with leading Italian politicians in the ruling Christian Democratic Party, and later with members of other political parties. One of the most visible effects of this kind of corruption has been the huge investment in unregulated building projects which caused environmental damages and made the area more vulnerable to earthquakes.

Organized crime is not the only perpetrator of corruption. Influence of businesses over politics has built over time a complex network of covert financial payments to politicians and public officials. Many politicians have been charged with nurturing the award of contracts to construction companies connected with their political party to reinforce their constituency, and to extract lucrative financing for themselves and for the party. Numerous cases of misappropriation and misuse of public funds have been found in the Department of Public Infrastructure and in

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<sup>34</sup> Protecting national banks from foreign takeovers has become a common practice in Europe. Despite EU integration, this practice has been interpreted as a resurgence of national capitalism in Europe.

<sup>35</sup> Sisti, L., "Italy: Something Rotten," in Center of Public Integrity, in *The Corruption Notebook*, Washington DC: PI Books, 125-143.

other responsible offices of regional and local governments. Frequently requirements of competitive bidding have been ignored or unlawfully fabricated to disguise a restricted bidding. Recent evidence in Italy, at regional level has demonstrated that high level of corruption reduces the contribution that a given level of infrastructure investment makes to growth.<sup>36</sup>

### The Current Era of Reform to Achieve Good Governance and Control Corruption

Under the pressure of globalization and the European Union, since the beginning of the 1990s, Italy and the other member states have undertaken substantial institutional and administrative reforms to privatize government assets, enhance competition, decentralize government activities, reduce bureaucracy and the discretion of bureaucrats, bring simplicity, transparency and flexibility to administrative procedures, and monitor and punish corruption. Fewer efforts, however, have been directed to reinforce the independence of the judiciary, its efficiency and enforcing power especially under the pressure of international organization.

As for privatization, the banking system and state-owned enterprises have been largely privatized and numerous domestic banking mergers have taken place under the auspices of the Central Bank of Italy. However, a great deal needs to be done to enhance competition. The government still remains the largest single shareholder in ENI, the big oil company, and in ENEL, the main electricity firm. Regulations need to be reduced also in the area of services where notaries, taxi firms, pharmacies, tradesmen are still protected against competition by special rules. Licensing these businesses is still a prerogative of different levels of governments. Other weaknesses have emerged in the Italian system of corporate governance. Numerous scandals in the course of the past years have adversely affected public confidence. Additional reform efforts are called for in this area.

With regard to decentralization of Government activities, a set of constitutional changes have shifted more power to the regions, especially in education and social services. However, numerous ambiguities and contradictions found in the specific legislative provisions have complicated the enforcement of these reforms. Furthermore, an adequate financing system has not yet been implemented.

In the field of public administration, a comprehensive reform has revolutionized the old system from the national to the regional and local levels of governments.<sup>37</sup> Among the major pieces of legislation, the Administrative procedure Act of 1990 established innovative provisions to bring simplicity, transparency and flexibility in administrative procedures.<sup>38</sup> In 1993, a process of privatization of the status of civil servants was also introduced and new competences and responsibilities were assigned to politicians and public managers. Merit-based recruitment and promotion have been reinforced and expanded to shield the civil service from political

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<sup>36</sup> Del Monte, A. and Paganini, E., "Public Expenditure Corruption and Economic Growth: the Case of Italy, *European Journal of Political Economy*, 17, 2001.

<sup>37</sup> Seguiti, M.L., *Public Administration Reform in Italy: Changes in Organization, Personnel Procedures, and New Approaches to the Delivery of Public Services*, Special Issue of *International Journal of Public Administration*, vol. 23, 2-3, 2000.

<sup>38</sup> In particular, they (1) imposed a time limit for the completion of administrative procedures. After the expiration of time, the silence of the administration is to be considered as consent; (2) required the identification of an accountable officer for all procedures; (3) imposed the communication of the start of the procedure to the interested parties, in order to ensure their right to intervene, and to appeal if these rules are not applied; (4) recognized the right to access to public documents; (5) required motivation of administrative decisions.

patronage. However, it is well recognized that the contract-based recruitment of top managers in public administration has increased connections between politics and administration, instead of reducing them. With regard to repressing corruption a set of rules have forced senior officials to declare their personal incomes and assets, to follow codes of conduct, and attend ethical training. However, conflict of interest regulations are not sufficiently and properly designed to prevent and combat rent seeking and corruption. In an increasingly commercialized public sector that works closely with business and non-profit, conflict of interests in both private and public sector are more likely to occur.

In public contracts, measures taken include debarment of companies found guilty of fraud and corruption, stricter procurement guidelines, and improved financial management and oversight. Monitoring of activities is conducted by a National Independent Authority for Public Works (*Autorita' di Vigilanza sui Lavori Pubblici*) instituted in 1994, with the specific task of guaranteeing the quality of public works and ensuring efficiency and effectiveness in the sector. Recently a new mechanism has been introduced by a few local governments in Northern Italy (Milano and Bergamo), namely "the Integrity Pact." It is a contract within government offices and companies bidding for particular projects. They prohibit bribery, ensure transparency, and foresee sanctions in the case of violations. They may include private investors and consultants.<sup>39</sup> Since the adoption of this instrument, the Municipality of Milan has excluded tens of bidding companies from a number of public works contracts. In many cases, collusions of rival bidders have been reported.

In several government programs, major weaknesses are detected with respect to monitoring, control, and accountability. First, instances of obscure, overlapping, and conflicting provisions in legislation or executive decrees have been very frequent, thus opening the way to amplifying corruption instead of reducing it. Second, the extensive reduction of *ex-ante* mechanisms of control over public administration activities in absence of a strong and effective on-going or *ex-post* control mechanisms have weakened accountability and reinforced the incentives for imprudent, and often illicit administrative behavior. The existing watch-dog organizations, such as the State Auditing Office, have not been previously trained for handling the new system of performance-auditing that the reforms have imposed.

For the purpose of preventing and controlling corruption, the Italian legislation has not contemplated any specific organism until 2004, when the High Investigator against Corruption (*Alto Commissario per la prevenzione and il contrasto della corruzione*) was instituted within the Prime Minister Office. Previously, with particular reference to fraud and financial corruption, the tasks of prevention, search and denunciation of illegal activities were (and are still) entrusted to the National Tax Police (*Guardia di Finanza*). This Agency is effective and its officials are recruited strictly on the basis of professionalism and physical criteria. The High Investigator is entrusted with investigative and monitoring competences within the realm of Public Administration. He can also conduct analysis on current laws and regulations and propose changes. Every six months, he reports to the Prime Minister who informs the presidents of the two Houses of Parliament on a yearly basis. In case of administrative offences he reports to the competent administration for consideration of disciplinary action; in case of criminal offenses, he is obliged to immediately report to the competent Judiciary authority. To pursue his duties he

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<sup>39</sup> This mechanism is similar to the "Anti-bribery Certificate" based on the Partnership against Corruption (*PACI*) principles. A number of large Italian companies (Autostrade spa, Enel spa, Falck group) have signed in the *PACI Principles Network*.

relies on the support of civil servants and consultants, and on an annual appropriation included in the budget of the Prime Minister. This innovation in the field of corruption is a positive step in the fight against corruption. However, the effectiveness of this measure remains to be assessed. As for combating the Mafia, among other measures, the *Parliamentary Commission for the investigation of the Mafia and other criminal associations* was created in 1996. It has been entrusted with judiciary powers to conduct investigations. Its activity is widely publicized on the internet where a specific window of dialogue has been opened to civil society to support the culture of legality.

More concrete satisfactory results have been achieved with regard to civil society. Expanded access to information regarding government organizations and activities through the use of ICT has been one of the top priorities of the present government and a great deal has been accomplished. More and more citizens have been connecting electronically with public offices to get useful information and government services. In addition, citizens groups, non-profit organizations, and other associations involving different sections of civil society have enormously expanded, thereby ensuring a more effective system of check and balances in the country.

### **An Initial Attempt of Comparing Italy and China**

This study, focused on the case of Italy, has provided some explanations of the contradictory results of the reports of a few International Organizations by taking a closer look at anti-corruption reforms in Italy. Similar study could be undertaken for China where corruption has been recognized as one of the major obstacles for the country's sustainable development and action has been taken at all levels of government to diminish its presence and impact.

Both in Italy and China, improving governance and fighting corruption is a major task of governments. However, both countries face difficulties in enforcing anti-corruption measures. The ranking and scores of China given by the WEF and by TI are not encouraging.<sup>40</sup> The analysis conducted by TI for the period 2000-2004 shows an annual change of perceived levels of corruption in China of -0.02 which means that China has deteriorated a bit.<sup>41</sup> The data seems to be in line with the most recent literature on corruption in China where it has been recognized that despite reforms, progress is hardly visible, yet the situation appears to be deteriorated. It would be interesting to farther the analysis at the country level by looking both at the quality and completeness of reforms in China and the environment where these reforms are applied. This is not the task of this paper. However, some initial considerations could be attempted.

In the political sphere, China, unlike Italy, is not a free country. The CCP possesses a monopoly on political power. Party members hold almost all top national and local governments, internal security and military posts. The Chinese regime closely monitors political activities and does not tolerate organized political dissent. Opposition groups are suppressed and protesters are arrested. As a result, the leadership role of the Chinese Communist Party (CCP) is in stark contrast with the Italian multi-party system and the consequent coalition governments. The National People's Congress (NPC) is, in principle, the Chinese parliament entrusted to elect government officials. In practice, it does a little more than approve decisions made by the CCP

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<sup>40</sup> See table 2.

<sup>41</sup> Lambsdorff, J. Graf, "Ten years of the CPI: Determining Trends," *2006 Global Corruption Report*, 292-328.

Politburo and its standing committees.<sup>42</sup> In addition, although China's human rights record is improving, it is still unsatisfactory by most standards. Unlike the case of Italy, in China freedom of expression is very limited. All media are owned by state or party institutions and are forbidden from criticizing government policy and discussing sensitive issues (such as democratic reforms and Taiwanese independence). The Chinese government restricts the use of internet by blocking the websites which are considered a threat to the political leadership and the unity of the country. Freedom of assembly is restricted and Chinese workers are not allowed to form independent labor unions. Despite these crucial differences, both countries have an unsatisfactory performance in the WEF and TI rankings and scores (in the TI report China is several positions below Italy, however).<sup>43</sup> Corruption is a severe problem in both countries. Embezzlement, bribery, personal connections, and nepotism are common despite counteraction reforms. Why so? One reason is that the abuse of power is pervasive in the multi-party system of Italy as well as in the single party in China, regardless of the different types of government and political structures of the countries. In both countries, the long lasting pervasive involvement of government in business has expanded corruptive practices. Ironically, these practices have continued to proliferate under the recent governance reforms both in Italy and China. Decentralization, privatization and market economy measures created new opportunities for more sophisticated types of abuse of power, corruption and nepotism. The large involvement of national and local officials in private business due to privatization (especially in the forms of outsourcing and public-private partnerships) and government decentralization has been recognized as two of the major factors influencing the spread of corruption.

Table2. Scores and Ranking of China by WEF and TI

●	<b>WEF Global Competitiveness Index 2005:</b>	<b>Rank</b>	<b>48/117</b>	
	INSTITUTIONS sub-index	Rank	60/117	<b>Score 4.26</b>
●	<b>WEF Growth Compet. Index 2005:</b>	<b>Rank</b>	<b>49/117</b>	
	Contracts and Law sub-index	Rank	52/117	<b>Score 3.72</b>
	Corruption sub-index	Rank	50/117	<b>Score 2.74</b>
				<b>Score 5.08</b>
NOTE: The scores for all indexes are in a scale of 0 to 7.				
●	<b>TI Corruption Perception Index 2005</b>	<b>Rank</b>	<b>78/159</b>	
			<b>Score</b>	<b>3.2</b>
NOTE: The score of TI is in a scale of 0 to 10, where zero means highly corrupt and ten highly clean. The Global Corruption Barometer has not been applied to China. In addition, with respect to Italy, the Public Integrity Index is missing for China, since the Center for Public Integrity has not included China in the list of the selected countries.				

Under the reshaping of China's rapidly growing economy from a command economy to a market-oriented one, the authority of the party leaders at all levels of government has remained central. In this country, the “very factors that fuel the economic drive - loser control, a freewheeling milieu, a growing market economy, and cadre involvement in it - these same

<sup>42</sup> Freedom House, *Freedom in the World 2006*, [www.freedomhouse.org](http://www.freedomhouse.org)

<sup>43</sup> Excluding the analysis of the *Center for Public Integrity* where China is not included in the list of the countries under analysis.

factors foster the growth of corruption. And according to numerous reports from China, it has grown high and wide.”<sup>44</sup>

One of the reasons why the scenario appears to be worse in China than in Italy, is that in China the pace of privatization has been massive and aggressive as opposed to the limited and piecemeal approach of Italy. In China, government and party officials at almost every level, tired of low wages and less public esteem have marketed their power, have formed companies, run businesses and sold their services to anyone who would pay for them. Networks of informal and personal bargaining and exchange of favors exist in every product sector of the economy. The formula for economic success is *guanxi* (bargaining skills and connections) at the expense of knowledge of the market and attention to efficiency.

In addition, although various Chinese reforms in government administration, procurement, civil service, and the fight against corruption have features similar to those of Italy, in China, a political reform for democracy, free media, development of civil society organizations and the creation of an independent anti-corruption agency have not been introduced. Therefore, presently, China would not register the same strong integrity mechanisms found for Italy by the *Center for Public Integrity* (especially with reference to Civil Society, Public Information and the Media; Oversight and the Rule of Law). Where the political apparatus shows scarce moral and ethical restraint, where personal relationships are at the core of society, and the government discretionary power is ample, the fight against corruption remains difficult.

In China, the first comprehensive attempt to fight corruption started in January 2005, when the CCP Central Committee released guidelines for a national system of corruption prevention contemplating: 1. ethics education; 2. institutional accountability for the administrative and judicial sectors; 3. civil society participation and monitoring. This system is due to be in place by 2010. In April 2005 the standing committee of the 10<sup>th</sup> NPC approved the country's first civil servant law to define officials' rights and responsibilities. This law introduces a more stable rewards system by providing that salaries are raised in line with economic growth.<sup>45</sup> Other provisions, including whistleblowers' protection have been approved.

Other interesting comparisons between Italy and China could be found not only with regard to specific reforms, but also in reference to the cultural environment where reforms take place. The phenomenon of Chinese Mafia could be also taken into consideration.

From this global overview, both Italy and China, although different in many respects, are experiencing stiff resistance against reform. An extensive study of the case of China may reinforce the argument (considered for Italy) that corruption in some countries persists despite privatization and anti-corruption reforms. If corruption is not properly addressed by taking into account also the specific cultural environment, reforms do not work and corruption continues to cause enormous damage, even greater than the past.

## **Conclusion**

Both scholars and policy-makers agree that that good governance and appropriate anticorruption measures are the key for economic development, investment opportunities, and

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<sup>44</sup> Joffe, E., "Ruling China After Deng," in Schell O. and Shambaugh D. (eds.), *The China Reader, the Reform Era*, New York: Vintage Books 1999, 136-154

<sup>45</sup> Transparency International, *2006 Global Corruption Report*, 142-145.



progress of civil society. However, the success of government reforms depends on the cultural environment (political, societal, and administrative) where the reforms take place, and on the government capacity to design, decide and implement them. International data show that although Italy has devised a good regulatory system of governance and anti-corruption mechanisms, corrupt acts continue to perpetuate to a great extent. A closer look at this system has shown important deficiencies.

In Italy, because of recurrent political instability due to the presence of heterogeneous coalition governments, major reform plans have been a result of compromises and consequently they have not been clearly crafted. In addition, rules and regulations have not targeted the objective with sufficient competence and determination, thereby causing ambiguities and confusion in implementation, at the expense of public interest. In many occasions, these rules were imposed without crucial preventive efforts in capacity-building in terms of human and financial resources. For a long period of time since the beginning of the 1990s, the words “efficiency”, “transparency”, and “accountability” have been no more than slogans, hollow concepts carrying no substantial meaning. Furthermore, the Italian environment, where the historical experience of personal connections, corruption and organized crime especially in the South have proliferated for an extended period of time, the forces of resistance against reforms are widespread and powerful. Also in China a massive campaign against corruption is in place. Recently, a Communist Party boss was arrested in Shanghai. Some think that this may be the most significant investigation since reform began in 1970s. We always think of China as having an authoritarian unitary government, but the fact is that China’s political process is very complex and one has to watch the environment of reforms very closely to see what’s happening. There is no doubt that, like in Italy, resistance against reforms is strong.

Further study is needed for both countries on specific areas of governance, by examining the details of the country regulatory systems and the various aspects of the cultural environment.