

Case Study

ITALY: G 05B

Action against Corruption

ITALY

Corrupt norms, persistent enquiries, public concern, uncertain outcome

1. Milan was called *tangentopolis* after corruption scandals broke there in 1992. *Tangenti* are bribes. The plural *tangentopoli* became shorthand "both for the investigations into corruption as well as the system of corruption itself"¹.

A history

2. The scale of corruption in Milan was discovered by accident, though it was the courage and persistence of Italy's prosecuting judges that brought cases to the courts and to public exposure. In a divorce court, the judge ordered payment to a wife of part of the salary of the manager of an old people's home, Mario Chiesa. She protested that the allocation was not fair - her husband was a wealthy man, with bank accounts in Switzerland and elsewhere. The police investigated and learned that a cleaning agency had been asked for a bribe to win the contract to clean the home. The police filmed an official receiving the bribe and the manager was brought to trial in February 1992.² His bank accounts implicated others, and when in prison he cooperated by giving further information.

3. The Public Prosecutor's Office and police collaborated to find out if the official had received bribes from other companies. He had assets disproportionate to his earnings, "tens of billions of Lira for which he could not account", some banked abroad. His bank account showed payments from other enterprises presumably to buy contracts. Had those companies paid bribes to other Government institutions? Further investigation showed they had, and that those institutions had also received bribes from yet more companies. In that way the enquiries exposed "systemic" corruption.

4. By June 1993 bribes on telecommunications projects were estimated at 2 per cent of the total value, on power station contracts at 3 per cent, but the actual costs of projects were thought to be "between 15 and 20 per cent more than was necessary" with one June 1993 municipal construction tender in Milan reportedly 50 per cent below the rate prevailing before February 1992³. One estimate for the total cost of corruption to Italy was US\$5 bn a year. Although many bribes were paid as political contributions to parties "Those who have confessed to taking bribes freely concede that as much as 60 per cent of all monies collected ended up in the bank accounts of individuals".

5. Corruption in Italy gained worldwide coverage. For example, in Britain the Guardian covered the resignation of the police chief of Rome and told of over \$200 m worth of gold, treasure and bank bonds found in one suspect's house⁴. The

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Economist asked if Italy might become ungovernable, and commented on the local government elections in 1993 that "The centre collapsed: parties that have ruled for more than 45 years were almost wiped off the map" attributing this to "the discredit heaped on Italy's governing parties by nearly two years of scandal"⁵. Time Magazine published an article by the chairman of the Fiat Group asking "Quo Vadis, Italy?"⁶ The web of suspicion surrounding so many in public life was described by Kenya's "Daily Nation" as casting a shadow over Italy's future⁷. In Thailand "The Nation"⁸ told of former Prime Minister Bettino Craxi remaining in a Tunisian hide-away while sentenced to 8 years in jail for accepting \$7 m in kickbacks.

6. The main corruption investigations included contracts for roads, power stations, oil, aerospace, railways and overseas aid and export credits. By March 1995 the "Clean Hands Enquiries" as they were called had investigated 2,800 people. On 500 of these the "First Judgement" required by the Italian system had been reached by negotiation, most being sentenced. 80 MPs were implicated as well as secretaries of political parties and ministers.

Further consequences

7. Many claimed that the real cost to the city and the nation was much greater than the estimated US\$5 bn a year. Bribes had influenced the choice of what work should be done. They had led to high-priced contracts, to the appointment of contractors whose workmanship was poor, and to an ability to disregard building and safety regulations. One estimate suggested that the costs from tax evasion were much greater than from corrupt placement of contracts. As a result the City of Milan had by 1995 a huge public debt and trivial assets.

8. The consequences at national level included constitutional change. The arguments for changing the constitution were described clearly by Graham⁹. Proportional representation had fostered unstable coalitions. Italy had 52 governments in 38 years but the system "failed to offer a genuine change of government" - the Christian Democrats having ruled continuously though in coalitions with different allies. Thus, there was no true political competition and no fear that corrupt behaviour would lead to loss of office. The changes brought a first-past-the-post or what some described as an "English" system for the majority of parliamentary seats. In national elections in March 1993 the traditional parties lost votes and Berlusconi took over as Prime Minister.

9. Berlusconi lost popularity himself through challenging the magistrates over corruption issues, and through reports on investigations of allegedly corrupt practice in his own family¹⁰. In January 1995 Berlusconi lost power. Uncertainties hit the exchange rate for the Lira and the Italian economy generally. Subsequently it has been difficult to understand and predict political developments in Italy. Allegations are made about the political ambitions of those who exposed corruption. One

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former Prime Minister died in exile in Tunisia, refusing to face charges of corruption in Italy, and his family has sought since to clear his name. The electorate appears suspicious of all candidates, and seeks a government that is competent as well as trustworthy.

10. The Italian Chapter of Transparency International confirmed in November 1999¹¹ that the cost of public investments in Milan fell after the “Clean Hands” operation. Some falls were dramatic: the average cost per km for constructing an underground railway dropped by 57%; a new international airport was completed for a cost 59% less than had been estimated. The operation of municipal companies had been turned from loss to profit and municipal tax was less than in other comparable towns.

11. By February 2000 the magistrates who led the “clean hands” anti-corruption drive claimed¹² that “Politicians and businessmen were now ‘acutely aware’ that they could be prosecuted for corrupt activities which had once been considered merely ‘part of the system’”. However, the chief prosecutor in Milan warned that “corruption was still a powerful force and the justice system had proved ‘more effective as a deterrent against bribery than in actually putting the guilty behind bars’”. “He noted that although the prosecutors had issued 3,000 warrants, there had been only 582 convictions, and only four people guilty of corruption were still in prison. He said that 481 cases were still being held up in the courts.”

12. The collapse of a system, seemingly because an agency bidding for a contract to clean an old-people's home reported an official who sought a bribe, shows that the time was right for change. The challenge to corruption in Italy in 1992 was facilitated by changes in the balance between political parties following the end of the cold war, by the relative independence of magistrates, by support from the media (much of it in alliance with the political opposition), and public outcry. The magistrates were described as “highly political players with their own agenda”. They have shown that corrupted systems can be changed, even if their motives are questioned and despite the risks that corrupt leaders may return to power.

13. Lessons to be learned, some suggest¹³, are that:

- a democratic system is no guarantee that corruption will not occur, especially if those in elected office do not feel threatened by effective political competition;
- democracy can self-correct; so that
- a coup d’etat is not necessary to overcome corruption.

14. To these lessons we might add the very high costs of corruption, showing that where there is systemic corruption the companies that pay the bribes get much greater benefits than the officers who receive them.

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15. A further insight into corruption in Italy was given by the Director of the Center for Judicial Studies in the University of Bologna¹⁴:

“Various waves of economic crises in Italy ... resulted in the largest state ownership of industry and control over the economic sector ever witnessed other than in Eastern Europe under communism. During the post-war years the Christian Democratic Party dominated each and every coalition government, being the largest party of each majority. In the 1950s it began to infiltrate the complex system of state-owned industries with people from its ranks (often with very poor professional qualifications). This perverse connection between joint control of government institutions and large portions of the industrial sector clearly contributed in a decisive way to the development of corruption.”

STATISTICS FOR LEGAL ACTION AGAINST CORRUPTION IN ITALY covering period from February 1992 to March 2000¹⁵

Committals for trial requested	3,146
People convicted by the preliminary judge	581
People acquitted by the preliminary judge (181 were acquitted because of the expiry of a statute of limitations)	444
People still before the preliminary judge	370
People indicted	1,234
Of whom	
People convicted by the court	576
People acquitted by the court (124 were acquitted because of the expiry of a statute of limitations)	220
People before the court	438

Because of the difference between the legal system in Italy and other countries it is difficult to explain these different categories precisely. However:

- **a large number of people were convicted of corruption;**
(compared with some other European countries), and
- **many acquittals were caused by the expiry of a statute of limitations.**

⁴ *UNDP PARAGON Generic Training Module on Public Service Ethics and Accountability*
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- ISSUES SUGGESTED FOR DISCUSSION

- **“Corrupt development is unsustainable”**. Is this a fair conclusion to draw from events in Italy and elsewhere? How can others be alerted to the problem?

- **Honest and courageous judges** were thought to be the main cause of action against corruption in Italy. The Italian pattern of prosecuting judges differs from that in several other countries, and there have been subsequent allegations that some judges were politically motivated. But are there lessons for the work of the judiciary or other groups elsewhere? How may such groups be strengthened?

- **Corruption was attributed to a defective electoral system.** Proportional representation led to frequent changes of government but in each new government a changed coalition of parties near the political centre kept many of the same people in office. Corruption was a major source of party funds. Electoral accountability requires the electorate to have power to vote out of office politicians with whom they are dissatisfied. What may be done to improve the accountability of politicians and reduce corrupt practice in funding political parties?

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NOTES

- 1 Robert Graham, "Pride of a nation damaged by tagenti", London, Financial Times Survey, "Italy", 30 June 1993, page 9
- 2 Gherardo Colombo, The "Clean Hands" Investigations in Italy, in "Corruption and democracy", ed Duc v Trang, Budapest, Institute for Constitutional and Legislative Policy, 1994, pages 153 - 154; also Gherardo Colombo, "Systemic Corruption: breaking the spiral - the lessons from Italy", address at Milan International Conference on Practical Means to Combat Corruption, organised by Transparency International, Milan, Italy, 1995. [Gherardo Colombo is a Public Prosecutor or "Magistrate" in Milan (there is no equivalent position in Britain). I have supplemented his accounts with information gained during a visit to Milan in March 1995, press reports, and a private communication from Massimo Fabio, 20 June 2001.]
- 3 Robert Graham, as footnote 1
- 4 Ed Vulliamy, "Rome police chief forced to resign", The Guardian, November 10 1993, page 4
- 5 The Economist, November 27 1993, page 47
- 6 Giovanni Agnelli, "Quo Vadis, Italy?", Time, March 7 1994
- 7 Richard Waddington Cossiga, "Scams to cast shadow over Italy's future", Nairobi, Daily Nation, March 5 1994 page 10
- 8 Bangkok, The Nation, "Craxi gets 8 and 1/2 years in Italian Corruption Trial", July 31 1994, page A8, quoting Agence France-Presse
- 9 Robert Graham, An experiment in voting, Financial Times Survey "Italy", 30 June 1993, page 4
- 10 Michael Sheridan, One hundred days of chaos, The Independent, 15 August 1994, page 17
- 11 e-mail of 29 November 1999 from Transparency International Italy (ti.it@tiscalinet.it) circulated in virtual conference by anticorrupt@jazz.worldbank.org
- 12 Information and quotations in this paragraph taken from Richard Owen, "Italian bribery 'not what it was'", The Times, London, February 18 2000, page 20.
- 13 For paragraphs 13 and 14 I have drawn on a case study (based on a panel discussion) written up in the Final Report of the Third Inter-American Conference on the Problems of Fraud and Corruption in Government, "Respondacon III", published by Casals and Associates under contract to USAID, 1996, pages 8 – 10.
- 14 Di Federico, Guiseppe, *Corruption in Italy: The Role of Prosecution*, in Duc V Trang (Ed), "Corruption and Democracy", Budapest, Institute for Constitutional and Legislative Policy, 1994, pp 159 – 162
- 15 From an analysis of results from the so-called 'Clean Hands' investigations, updated to 31 March 2000, given by Gherardo Colombo, Vienna, 14 April 2000.