

Corruption and the Economy: From the Ill Winds, Some Good

Judith Harris (June 30, 2015)



As the daily outpouring showing the extent of corruption shows, “It’s an ill wind that blows nobody any good.” In the case of Italy, that ill wind is the troubled economy. Without the lingering recession that began in 2008, much that is unacceptable might have remained under the carpet. If so, we can be grateful. But now what?

ROME –As the daily outpouring of evidence of corruption shows, “It’s an ill wind that blows nobody any good.” Perhaps, in the case of Italy, it’s the troubled economy: without the recession that began in 2008 and still lingers, much that is unacceptable might have remained swept under the carpet. If so, we can be grateful. But where does Italy go from here?

On the A-list of scandals we have seen Expo in Milan, the cities of Rome and Naples, the Mose water barrier in Venice. But putting these aside there is also a B-list, which is now bringing evidence of corruption in sports, among other areas. In Catania, Antonino Pulvirenti, former president of the city’s soccer club, has admitted to prosecutors that he at least attempted fixes for five Serie B games, at an alleged cost of E100,000 (\$115,000) for a win against Varese, Trapani, Latina, Ternana



and Livorno. Although Pulvirenti says that the actual outcome of the games did not reflect his dodgy contacts with rival club officials, Catania in fact won four, losing only to Livorno.

On the same day, June 30, came the news from Palermo that Dr. Matteo Tutino has admitted performing cosmetic plastic surgery on Rosario Crocetta, president of Sicily elected in 2012. His cosmetic surgery bill was fraudulently put onto the national health service on grounds that the surgery was for a medical “emergency.” Hidden microphones led to Tutino’s arrest by Carabinieri police, and he is now under house arrest as the investigation continues.

On talk shows it is frequently stated that, all told, corruption costs the Italian economy around \$70 billion a year, or 4% of the GNP. Though vouchsafed by the Organization for Economic Co-operation and Development (in Italy, OCSE), this figure is being challenged these days. The real costs of corruption to the country as a whole are unknown. What is being called an arbitrarily low figure gives some an excuse to ignore the problem, now estimated to cost Italy over \$110 billion a year. Whatever the real amount, “Corruption is a hangman that chokes Italy at the throat and removes the oxygen for economic resources,” banker-manager Corrado Passera, Mario Monti’s Minister for Economic Development, said recently.

The disaster is widespread. As well as in the South, scores of investigations are underway in Lazio and in Lombardy and other North Italian regions. It’s estimated that public works contracts are inflated by 40% or more over real costs. A year ago the tax police of the Guardia di Finanza brought charges of fraud against 1,173 individuals in the health services and pharmaceuticals. Within the state bureaucracy, in the year 2013 the accounting court (Corte dei Conti) brought charges against 742 public officials. Not least, corruption reportedly boosts food prices by almost 6%, punishing the poor.

“When corruption, lawlessness, and crime are manifest, growth dries up. The loss of income and of wealth become a problem for those who respect the law, and also for the economy,” says Rainer Masera, writing in *La Repubblica* June 29. Banker-economist Masera, who was Minister for the Budget and Economic Planning under the government headed by Lamberto Dini, obtained his PhD at Oxford under Nobel Prize-winning economist John Hicks, and today heads the economics department at the European University of Rome. (see: http://www.repubblica.it/economia/affari-e-finanza/2015/06/29/news/il_peso_insopportabile_della_corruzione-117978427/)

His thesis is that organized crime has a financial counterpart within the system (as is borne out in the Mafia Capitale scandal of Rome). This linkage, says Masera, “explains the pressure to pollute financial systems by means of off-shore financial centers and sophisticated instruments like derivatives. In Italy the importance of the illegal phenomena that have characterized public investments is visible...in the broad gray area of society and politics.” As in developing countries, in Italy only half the financial resources devolved for public works actually are the remaining 50% is wasted on “inefficiency, bad and guilty administration within the selection, construction and management of the project, and to corruption and other illicit activities.”

What is to be done? In Masera’s view, the positions taken by Pope Francis and by Italian President Sergio Mattarella lead the way, and should be followed by “rigorous application.” Here’s his recipe:

- Evaluate public works projects on the basis of genuine economic and social priorities, while beware of its capture by the politicians;
- Within a framework of regulations, condition the choice of project only after careful analysis of risks and of realistic timing for completion;
- Careful monitoring of the budget and of contracts, with certain dates for completion;
- Subsequent analytical review of the project with a view to possible civil and penal actions;
- Pay constant attention, without ambiguities, to ethical and moral values.



If it is true that it's the recession that has helped to bring all this into the open, it flies in the face of the U.S. experience. According to Cheatsheet.com, a U.S. on-line magazine, a survey in Spring 2015 by Notre Dame University's business school, Mendoza College, and by Labaton Sucharow law firm, unethical behavior has actually increased on Wall Street since the financial crisis. (See >>> [2] [2]). There the oral of the story seems to be the generalized attitude that illegal behavior is simply the cost of doing business; that young people entering business do not understand the need for ethical behavior; and that, where cheaters do not go to jail, the procedures continue. The result, the survey warns, is that the unethical behavior may lead to yet another financial crisis.

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