

Corruption Networks, Transaction Security and Illegal Social Exchange

JEAN CARTIER-BRESSON

Introduction

Ever since the publication of Banfield's seminal article,¹ economists have traditionally observed that corruption becomes possible as soon as three types of economic parties exist: an agent, a principal, and, lastly, a third party whose gains and losses depend upon the agent. In this literature, the agent is corruptible to the extent that he has, *a priori*, the ability to conceal his corruption from his principal. An agent becomes corrupt when he sacrifices the interests of his principal to his own benefit, and in so doing, breaks the law. According to this definition, then, corruption is merely a particular model of agency relationship. According to Banfield, three types of measures would be likely to reduce corruption, which is hypothetically endemic given human opportunism:

- inducing loyalty through salary policies;²
- using the threat of sanctions to make the consequences of exposure more serious;³
- monitoring agents' activities by systematic audit policies in order to increase the likelihood of detection.

According to the standard work on the economy of corruption,⁴ one should also add the following to these anti-corruption policies:

- rules which reinforce competition between politicians, provided that political challengers are pushed into denouncing corruption, that pressure groups establish themselves legally and openly, and also that voters stay vigilant and interested in the results of public policies;
- measures aimed at improving both the precision of public demands made by decision makers (politicians) and competition between firms seeking public contracts;
- steps which would maintain competition between the administrative departments implementing political decisions.

The hypothesis is that the consolidation of such types of competition will improve the quality of information at the disposal of the principals and the

¹ E. C. Banfield, 'Corruption as a feature of governmental organisation', *Journal of Law and Economics*, 18/3 (1975).

² G. S. Becker and G. Stigler, 'Law enforcement, malfeasance and compensation of enforcers', *Journal of Legal Studies*, 3/1 (1974).

³ G. S. Becker, 'Crime and punishment: an economic approach', *Journal of Political Economy*, 76 (1968).

⁴ S. Rose-Ackerman, *Corruption: a Study in Political Economy* (New York, Academic, 1978).

potential victims (the voters in the case of legislative corruption, the politicians and the tax-payers in the case of administrative corruption). In the conclusion of her book, Rose-Ackerman reminds us that these measures, in order to be efficient, require the existence of a democratic ideology and a sense of personal ethics.⁵ The author's frame of reference is the pluralist model of American political scientists (Dahl, for example). Following this logic, there is constant competition between and within organizations (political parties, the administration, pressure groups) and this assumption reinforces the idea of a political or bureaucratic market which interacts with the economic market.

Implicitly, the majority of economists, following the literature on the economics of crime and the 'rent-seeking society',⁶ have built models of a market for corruption in which supply and demand operate within the constraints of juridic or electoral sanctions;⁷ or else a theory of corruption contracts which reduce illegal transaction costs;⁸ or, lastly, a game-theory model of corruption which studies the risks involved in failing to honour contracts.⁹

Nevertheless, in the great majority of cases, exchanges between parties implicated in corruption are practically institutionalized; these exchanges are developed between formal entities who already know each other and who operate according to organizational forms that aim to offer transaction security and a certain price stability. In this context, the risk of detection and sanctions is no longer an increasing function of quantity, and the price demanded by politicians is not determined by the probability of sanctions. The risks of sanctions and unhonoured contracts are very low in the case of systematic corruption. Normalized illegality¹⁰ clearly signifies that specific transactions are clandestine, while the global presence of the phenomenon is known to a large

⁵ 'The fundamental lesson to be learned from this degenerate case (second-best model of democracy), however, is not that corruption may be a good way of achieving the majoritarian principle, but that the personal moral beliefs of voters, politician and bureaucrats play an essential role in modern democracy', Rose-Ackerman, *Corruption*, p. 234.

⁶ A. O. Krueger, 'The political economy of rent-seeking society', *The American Economic Review*, 64 (1974). J. Buchanan, R. D. Tollison and G. Tullock (eds), *Towards a Theory of Rent-Seeking Society* (Texas, A&M University Press, 1980). R. D. Tollison, 'Rent-seeking: a survey', *Kyklos*, 35/4 (1982). A. L. Hillman and E. R. Katz, 'Hierarchical structure and the social costs of bribes and transfers', *Journal of Public Economics*, 34 (1987). G. Tullock, *The Economics of Special Privilege and Rent Seeking* (Kluwer Academic, 1989).

⁷ R. Tilman, 'Emergence of black-market bureaucracy: administration, development and corruption in the new states', *Public Administration Review*, 28/5 (1968). O. Johnson, 'An economic analysis of corrupt government, with special application to less developed countries', *Kyklos* 28 (1975). Rose-Ackerman, *Corruption*. M. Beenstock, 'Corruption and development', *World Development*, 7 (1979). B. L. Benson and J. Baden, 'The political economy of governmental corruption: the logic of underground government', *Journal of Legal Studies*, 14 (1985). R. Klitgaard, *Controlling Corruption* (University of California Press, 1988). M. S. Alam, 'Some economic costs of corruption in LCDs', *The Journal of Development Studies*, 27 (1990). A. Shleifer and R. Vishny, 'Corruption', *Quarterly Journal of Economics*, August (1993).

⁸ P. Reuter, *Disorganised Crime; the Economics of Visible Hand* (MIT Press, 1983). M. Turvani, 'Illegal markets and new institutional economics', Mimeo, conference (Economie des coûts de transaction, Paris, 1994).

⁹ J. Macrae, 'Underdevelopment and the economics of corruption: a game theory approach', *World Development*, 10/8 (1982). F. T. Lui, 'A dynamic model of corruption deterrence', *Journal of Public Economics*, 31 (1986). O. Cadot, 'Corruption as a gamble', *Journal of Public Economics*, 33 (1987). S. Zamagni, 'Sul processo di generazione della corruzione sistematica', in L. Barca and S. Trento (eds), *l'Economia della corruzione* (Libro del tempo laterza, 1994). A. Vannucci, 'Il Mercato della Corruzione. I meccanismi dello Scambio Occulto in Italia', Thesis (1995).

¹⁰ S. Trento, 'Introduzione' in Barca and Trento, *l'Economia della corruzione*.

number of parties who remain passive, employing a free-rider strategy.¹¹ As Heidenheimer¹² and Padioleau¹³ realized, the political economy of corruption treats only occasional and unorganized exchanges between impersonal agents (market corruption) and forgets parochial corruption. The hypothesis of the economists is therefore to think that in modern economies, archaic corruption (parochial corruption) gives way to modern corruption (market corruption). Rose-Ackerman¹⁴ provided a good definition of the frame of reference of theories of corruption markets when she wrote, 'My major purpose has been to examine the pathology of relatively healthy organisms, however, *I have concentrated upon political systems in which legislative-bureaucratic collusion is not a central problem*' (emphasis added). From the moment when collusion between political parties, the top echelons of administration and private or public businesses becomes the basis of a large scale corruption in Europe, it is necessary to broaden the economic approach by examining how different resources (economic/political, social, symbolic) are exchanged. This type of exchange between political, economic and social systems is not the pluralist model, but rather the model of neo-corporatist democracies in which consultation and co-management form the basis of the politico-economic system.¹⁵ Thus, from our point of view, in modern societies parochial corruption is often more evident than market corruption.

For French specialists, repression in the fight against corruption¹⁶ must leave room for preventive policies that necessitate, first of all, an analysis of the

¹¹ J. Cartier-Bresson, 'L'économie de l'information et l'analyse des réseaux de corruption', *Hermès* (CNRS, Démocratie et démocratisation, 1996). What the economy of information and of collective mobilization has shown is that if a mere piece of information was enough to engineer a moral reaction from the principals, a more rational and utilitarian reaction on their part would lead them to two conclusions regarding costs and benefits. The first calculation that potential victims (the principals) have to make is about the amount of rational effort required in order to obtain the information enabling them to control agents' actions by audit commissions. If, following that, the agreed audit commissions find evidence of betrayal, a second calculation follows. This is to do with the positive consequences it is hoped to secure by the use of information (benefits obtained by sanctions and compensations) after choosing to take action (costs). The high cost of securing information and taking action leads to the passivity of the victims from the moment that the losses are spread over numerous actors (the tax-payers) and the profits concentrated in a small number of agents (firms and public actors). M. Olson, *The Logic of Collective Action* (Cambridge MA, Harvard University Press, 1965).

¹² A. Heidenheimer (ed.), *Political Corruption: Readings in Comparative Analysis* (New York, Rinehart and Winston, 1970), pp. 18–9.

¹³ J. G. Padioleau, *L'Etat au Concret* (Paris, Presse Universitaires de France, 1982), ch. 6.

¹⁴ S. Rose-Ackerman, *Corruption*, p. 212.

¹⁵ Schmitter notes that the dominant paradigm of pluralist theory postulates a free competition between interests for access to public resources, which does not account for the relationship specific to some European countries between interest groups and public policies. Neo-corporatism 'can be defined as a system for representing stakes, a system in which the constituent bodies are organised into a limited number of categories which are specific, compulsory, non-competitive, acknowledged, or accepted – if not created – by the state and which have been guaranteed a deliberate monopoly of representation inside their own category, in exchange for the observance of certain controls over the selection of leaders and the relationship between demands and interests' (emphasis added). P. Schmitter, 'Still the Century of Corporatism', in P. Schmitter and G. Lehmbruch (eds), *Trends Towards Corporatist Intermediation* (Sage, 1979).

¹⁶ R. Rapport Bouchery, Prévention de la corruption et transparence de la vie économique. Rapport au premier Ministre, Collection rapports officiels, La documentation française (1993). *LOI anti-corruption, du 29 janvier 1993* (Guettier, Dalloz, 1993). Rapport Rozes au premier Ministre, Regard sur l'actualité 207, jan 1995, La documentation française (1995).

organizational forms of the phenomenon. As a premise for a method complementary to the political economy of corruption, the aim of this contribution is to explore organizational forms favouring the expansion of corruption. The purpose of this paper, therefore, is not to study the causes, object, and consequences of demand and supply for bribes, nor to present the economic literature on the subject;¹⁷ rather it is to understand how individual exits from the legal system are established¹⁸ and how such 'treason' becomes organized into corruption networks. Similarly to all other markets, the corruption network is embedded in the social structure.¹⁹

Defining a Socio-economic Network of Corruption

As Padioleau²⁰ has remarked, the political economy of corruption deals only with limited and non-organized exchanges of impersonal agents, although the phenomenon starts to pose an economic and political problem when it is institutionalized and organized, thus changing its frame of reference.²¹ Corrupt exchange can be limited and non-organized (market corruption or economic exchange corruption) or, in contrast, regular and organized (social exchange corruption). In the first case, there are no rules of the game and the exchange is unstable by nature and leads to bargaining directed by impersonal agents who do not know each other. In such conditions, there is strong uncertainty about the price of the corrupt transaction and uncertainty about the result. In the second case, corruption turns into a political, economic and social exchange. The organization of corruption by social networks then prevails and enables a real institutionalization of procedures.

¹⁷ J. Cartier-Bresson, 'Éléments d'analyse pour une économie de la corruption', *Revue Tiers-Monde*, 131 (1992). J. Cartier-Bresson, 'Corruption, pouvoir discrétionnaire et rentes', *Le Débat*, 77 (1993). J. Cartier-Bresson, 'De la définition d'un marché de la corruption à ses formes organisationnelles: un premier bilan des analyses économiques de la corruption', in D. della Porta and Y. Mény (eds), *Démocratie et Corruption en Europe* (La découverte, 1995) (Now in English: 'The Economics of Corruption' in *Democracy and Corruption in Europe* (London, Pinter, 1997). J. Cartier-Bresson, 'Corruption, économie et démocratie', *Après demain*, 370, reprinted in *Problèmes économiques*, 2.432 (juillet, 1995).

¹⁸ A. O. Hirschman, *Exit, Voice and Loyalty* (Cambridge MA, Harvard University Press, 1970).

¹⁹ M. Granovetter, 'Economic action and social structure: the problem of embeddedness', *American Journal of Sociology*, 91/3 (1985). M. Granovetter, 'The Sociological and Economic Approaches to Labor Market Analysis: a Social Structural View', in M. Granovetter and R. Swedberg (eds), *The Sociology of Economic Life* (Westview, 1992).

²⁰ Padioleau, *L'Etat au Concret*, ch. 6.

²¹ 'In this situation (economic exchange corruption or barter corruption), we are dealing with an exchange in which an agent A only does X if agent B reciprocates by doing Y. Thus in the case of barter corruption, the terms of the "contract" are clearly set out between parties; goods are exchanged at the time of the transaction and the contract specifies precisely the reciprocal obligations of the protagonists (...). On the other hand, in a complex political society in which power is a "widespread medium", corruption through an exchange of favours is also expressed by what seems to us other types of transactions (...) more complex and differentiated than the ordinary relationship of economic exchange (...). In the corruption that we shall call social exchange corruption, the terms of the transaction are not all set out precisely and carrying out the "contract" is largely up to one of the corrupted agents who will be a recipient of the favours. As a result, if tacit reciprocity is expected, the exact nature of the compensation and the timing of the exchange is not precisely established.'

Most economists distinguish only between market and hierarchy coordination.²² But, markets are just one among various alternative and often complementary coordinating mechanisms. Hierarchies, networks, associations, and states have frequently been important mechanisms for coordinating actors in capitalist societies when adequate designs are blended.²³ Yet, the logic of hierarchy is permeable to the logic of competition and solidarity; the logic of competition is permeable to that of organization and solidarity.²⁴ Trust, reciprocity and long term relationships are sustained by community-like structures.²⁵

In our approach to socio-economic networks,²⁶ any form of action at the micro-social level is a combination of a whole set of coordination principles. In each act we find the principles of market coordination C (that is, of competition, selfishness, with prices as the main adjustment variable), of hierarchy H (based on authority and obedience), and of solidarity S (which allows for confidence through proximity).²⁷ Our assumption, then, is that one form of coordination cannot survive without the other. Each act mobilizes in variable and inseparable proportions C, H, and S. Internal and external markets²⁸ are subject to the same logic, that of mixed regulation, and they experience modalities of hybrid coordination. Economic action is thereby embedded in social structures. Mixed regulation refers to the existence of combinations of explicit and implicit, formal and informal, rules that maintain creative tension in all choices and actions. Whereas the neo-classical paradigm assumes that individuals are sovereign, we argue that individual action is influenced by the hold that institutions have on individual decision making.²⁹ In the case of large scale corruption among élites, often aimed at financing political activities, the generalization of transgressions has been brought about through informal social exchanges (gentlemen's agreements) which are nonetheless illegal.

The illegal organization of corruption structures the behaviour of various parties who possess unequal resources, different objectives, and who want to develop a certain cooperation and coordination stability, made necessary by the

²² O. E. Williamson, *The Economic Institutions of Capitalism* (New York, Free, 1985).

²³ R. Hollingsworth and L. Lindberg, 'The Role of Markets, Clans Hierarchies and Associative Behavior', in W. Streeck and P. Schmitter (eds), *Private Interest Government: Beyond Markets and State* (Sage, 1988). J. Campbell, R. Hollingsworth and L. Lindberg (eds), *The Governance of American Economy* (Cambridge, Cambridge University Press, 1991). J. R. Hollingsworth, P. Schmitter and W. Streeck (eds) *Governing Capitalist Economies: Performance and Control of Economic Sectors* (New York, Oxford University Press, 1994).

²⁴ E. Friedberg, *Le Pouvoir et la Règle, Dynamique de l'Action Organisée* (Seuil, 1993).

²⁵ K. Polanyi, *The Great Transformation: the Political and Economic Origins of our Time* (Beacon, 1957). D. North, *Structure and Change in Economic History* (Norton, 1981).

²⁶ Granovetter, 'Economic action and social structure'. R. Swedberg, *Current Sociology* (Sage, 1987). Granovetter and Swedberg, *The Sociology of Economic Life*.

²⁷ According to Boyer and Hollingsworth, informal networks are loose groups of individuals and organizations between whom transactions are conducted on a basis of mutual trust, itself supported by relationships which are stable, specific, mutually compulsory and not legally controllable. They can remain intact thanks as much to consensus values as to dependence on resources – which means through 'culture' and 'community' or through dominant units who impose a dependence on others. In most of these cases, they interact in an obviously different way to markets, hierarchies and states. R. Boyer and R. Hollingsworth, 'From national embeddedness to spatial and institutional nestedness' and 'Coordination of economic actors and social systems of production', Mimeo (1995).

²⁸ C. Sabel, 'Studies Trust: Building New Forms of Cooperation in a Volatile Economy', in F. Pyke and W. Sengenberger (eds), *Industrial Districts and Local Economic Regeneration* (Geneva, International Institute for Labor Studies, 1992).

²⁹ A. Etzioni, *The Moral Dimension: Towards a New Economy* (New York, Free, 1988).

illicit nature of their activities. Among the forms possible for the organization of corruption transactions (based on the market, hierarchy, proximity or solidarity), the network is one possible option allowing us to draw up a reference model well-suited to the reality of institutionalized large scale corruption. A perspective which emerges is that neo-corporatist theories of organized interest intermediation between state and civil society offer the possibility of asserting public authority, but under limited state sovereignty.

Corruption networks are in that sense an extension of social legal networks (relational networks).³⁰ The normalization of acts of corruption operates by

³⁰ (a) *Relational and legal networks* 'This system (the French administration), however, which is rigid, compartmentalized, centralized, often proves to be dysfunctional and must be reformed by creating networks which make hierarchies more flexible, go beyond frontiers, overcome divisions or structural antagonisms. The combination of these two elements does the rest: there is nothing more efficient in this system than the union of power and the adherence to one or, if possible, several networks. The accumulation of attributes and resources reduces the capacity for action, influence and control (...). In France, the different networks do not negotiate very much and isolate themselves from each other: each manages its interests through a small group without bothering the others.' Y. Mény, *La Corruption de la République* (Paris, Fayard, 1992). 'This phenomenon of social oligopoly rests on the concentration of intrinsically monarchic power in the hands of one person, the whole thing being based on several networks.' J. F. Médard, 'France-Afrique: des affaires de famille', in D. della Porta and Y. Mény (eds), *Démocratie et Corruption en Europe* (La Découverte, 1995). 'High civil servants create networks which go beyond the frontiers between administration and politics, left and right wing, private and public sectors. One cannot overlook the fact that such connections favour decision making and the implementation of public policies. It does not however operate without some dangers, the main one being the confusion between competence and loyalty.' E. Suleiman, 'Les élites de l'administration et de la politique dans la France de la V République: homogénéité, puissance permanence' in E. Suleiman and H. Mendras (eds), *Le Recrutement des Elites en Europe* (La Découverte, 1995). (b) *Corruption networks* 'Corruption happens with collective networks created one after the other which tends to eliminate the feeling of guilt and responsibility.' J. Becquart-Leclercq, 'Paradoxes de la corruption politique', *Pouvoirs*, 31 (1984). 'The corrupt exchange usually needs a vast network of protection (...) I shall offer a few thoughts on the places where this whole exchange network is created, that is to say these seats of occult power which enable the reproduction and spreading of corruption (...) the enlarged reproduction of corrupt exchange can take place because of a complex network of relationships and associations which bring together public and private agents as well as mediators and this builds the basis of a reciprocal loyalty enabling the continuity of exchanges.' D. della Porta, 'L'échange corrompu' in P. H. Claes and A.-P. Frogner (eds), *L'échange Politique* (Édition libre de Bruxelles, 1995). 'A third case (of corruption) is when getting a favourable decision is the result of friendly networks. The ability to move from one field to another or a privileged access to politico-administrative decision-makers smooths away difficulties.' Y. Mény, 'La fin de l'éthique républicaine?', in D. della Porta and Y. Mény (eds), *Démocratie et Corruption en Europe* (La Découverte, 1995). 'One constant clearly emerges from the preceding pages and that is the importance of interpersonal relationship networks in the relationships between the French state and African states. This is why the analysis of social exchange throws an original and pertinent light on the patrimonial logic of these relationships.' J. F. Médard, 'Théorie de l'échange et échange politiques', in Claes and Frogner, *L'échange Politique*. 'The financial stakes being enormous, the organizers of big frauds are associated and structured in the same way as traditional commercial businesses; to this way of working, one can add a characteristic called "Network", which implies a compartmentalized system based on the specialization of tasks (...) some types of fraud can only happen through corruption networks involving representatives of the public authorities in one or several countries'; 'These practices show the existence of networks the extent of which can be unknown to those very people who belong to them'; 'the existence of operational networks and commercial channels created to last; corruption here is not a limited affair, however important it may be, but rather a lasting and continuous phenomenon'; 'Networks, channels, contracts – like Matruschka [Russian dolls], the organization of big commercial frauds is structured, organized into hierarchies; it needs the involvement of an important number of specialized agents' Service Central de Prévention de la Corruption, 'Commerce international et corruption', in J. Cartier-Bresson (ed.), *Pratiques et contrôles de la Corruption* (Association d'économie financière, Montchestier, 1997) pp. 188–199.

letting the gap between the spoken order and the order of concrete hidden practices suited to each environment become common place. Such occult practices are not necessarily illegal. Mény,³¹ thinking more precisely of political practices, speaks of 'universalistic principles and particularistic behaviours'. This involves a confusion of values: organizing politics on the lines of the civil service, and the civil service on the lines of politics. This confusion, however, is not always reduced to the existence of market values in a non-commercial job, since power and recognition do not merely amount to accumulating money. Thus, when corruption defines a political system and not individual behaviour, there is more than a monetary exchange and the tendency to cheat with the supposed values of the systems (political, economic, administrative) is based on the confusion of roles, values and the concentration of functions. The exchanges of corruption are multidimensional in the sense that several types of exchange are accumulated within the same process: material exchange, information exchange, sign exchange, symbolic exchange, etcetera. It is from this perspective that we have privileged the hypothesis of a social exchange over that of an economic exchange. The value systems which underlie each area become hybrid. Thus, a contradiction emerges between the proclaimed ideal, the separation of functions and the values associated with them, and a practice which is based on the complete rejection of this ideal: weakness of incompatibilities, accumulation of mandates, *pantouflage* ('revolving door' between public and private sectors). The term hybrid implies that the neutrality attached to the action of the administration is a value with no real foundation. The most important administrative departments train the agents who will take the important decisions in all areas. As a result, corruption is an exchange of different goods which belong to the norms of the social reproduction of the élite.

In our approach,³² a corruption network is structured in a clandestine manner by mobilizing multiple 'resources' such as financial interests, obedience to hierarchy, solidarity, family, friends (ethnic or tribal, religious, political, regional, sectorial, corporative . . .), violence. Its objectives, which are no less multiple, range from covering up illegal activities – small or large – to the re-routing of competition practised in a legal market. The objectives also include the funding of political parties. The enlarged reproduction of corrupt exchanges can be explained by a complex network of interpersonal relationships and associations. The diversity of the actual forms of corruption networks regarding the formality, centralization, and finalization of their activity, the degree to which decisions are delegated, their divisions of labour, and their stability obviously vary in accordance to their country, regions, activities, and so on. According to della Porta and Vannucci,³³ the foreseeable palette ranges from the most formal structure (the tribe; *il clan, il comitato d'affari, la frazioni di partito*) to the least formal (occasional association).

³¹ Mény, *La Corruption de la République*.

³² J. Cartier-Bresson, 'Les réseaux de corruption et la stratégie des "3S, Sleep, Silence, Smile"', in M. Borghi et P. Meyer-Birsch (eds), *La Corruption, l'envers des droits de l'homme* (Editions Universitaires de Fribourg (Suisse), 1995).

³³ D. della Porta, *Lo Scambio Occulto* (Il Mulino, 1992). D. della Porta and A. Vannucci, *Corruzione politica e amministrazione pubblica* (Il Mulino, 1995).

The Heterogeneity of Values and the Procedural Rationality of Behaviour in Corruption Networks

The politician wants to establish power in general and/or achieve personal enrichment, whereas the entrepreneur seeks rents and/or contacts with 'well-known figures', the political party employee seeks to raise funds for the party cause and/or improve personal life chances, and the disenfranchized wants to facilitate his access to housing and health care. But, in their search to 'maximize' an objective, they mobilize a set of resources (political, economic and social) and coordination principles (competition, hierarchy and solidarity) which function as joint products. This mix of friendship, interest, and obedience gives rise to unwanted and unforeseeable effects. In parallel, mimetism is a determining factor in the expansion of corruption. Thus it is a principle of imitation rather than substantive rationality which is at the origin of exits; and so the utilization of economic rationality often fails adequately to explain the phenomenon.

The corruption network is a site which both integrates and upholds multiple systems of values and hybrid motivations. The efficiency of a network organization is due in large part to its capacity to offer a minimum common objective to individuals possessing strongly heterogeneous cultures, resource endowments, and motivations. The heterogeneity of the parties is at the base of the corruptive exchange. Lastly, the network is an authority which integrates the economic and the social because, to accumulate financial and political power, the network develops from principles of mutual aid and solidarity. Networks are organized through the institution of systems of rights and obligations imposed upon the individual and given priority over other systems of rights and obligations: family, firm, state. Each individual is defined by his 'priority' network: respecting the rights and obligations of the network comes before defending one's individual utilitarian interests.

The corruption network allows for illegal transactions based on mercantile relationships of competition, hierarchy (obedience), and solidarity (confidence). The force of networks lies in allowing for the development of a procedural rationality based on learning processes in the handling and combination of these three variables.

The Corruption Network Scrambles Boundaries

The representational crisis means that new connections arise between new parties. The concept of network, in this sense, brings about a deconstruction of categories (e.g. administrations and entrepreneurs) to the benefit of another form of relationship (e.g. the friendship between a civil servant in the industry ministry and an entrepreneur). The concept of network is a category-smashing machine. Such deconstruction becomes necessary when the analysis no longer seems to function under routine processes of aggregation. The deficit of old representations and the gap between the observed object and its new reality – which is only imperfectly grasped by traditional statistical categories – accelerates reference to the network. In other words, analysis by network becomes necessary when traditional boundaries are rendered irrelevant by the unexplained evidence. The concept is concretized in organizations which redefine these boundaries by authorizing alternative forms of socialization.

The construction of a corruption network aims at including pieces of the environment in the organization owing to a system of alliance between two individuals or collective parties against a third party (the victim). This alliance aims at reducing the parties' dependence on legal organizational boundaries and constructing instead a favourable environment, negotiated in secrecy. The objective is to develop interpenetration (of agents) at the heart of organizations by softening the rigidity of organizational boundaries. Through this, the network creates a web of pertinent interlocutors who are concerned with the definition of problems needing to be resolved and by their solutions.³⁴ The network takes shape by assuming from the start that the legal boundaries of organizations are already scrambled and that clear separations between an organization's interior and its exterior do not exist in our economies. For example, in contemporary capitalism, firms are weighed down with regulations and the state's function is to improve the dynamism of these same firms (through industrial policy, for instance). Under these circumstances the boundaries between the public and the private spheres are scrambled and a corruption network is merely the illegal extension of the legal ambiguity we see through multiple forms of lobbying and pressure being exercised on and in the state.

The corruption network is characterized by an entanglement of its activities and by the multiplicity of skills officially performed by its members. Wade³⁵ describes a corrupt network in India's irrigation sector. It involves parties as diverse as peasants (purchase of water), mayors (purchase of maintenance contracts that give work to members of the community and assure their own re-election), local state engineers (who take in money from the peasants, who then give part of it to their superiors in order either to climb up the hierarchical ladder of the administration or to obtain nominations to be posted to zones offering greater opportunities for corruption), public works contractors (purchase of dam construction and maintenance contracts from high state officials) and political parties (sale of contracts to public works firms via high state officials, and purchase of votes from peasants and mayors). The illegal exchanges are integrated into a larger legal network which is that of clientelism and the reign of favours.

Closer to home, in France a 'model' network of political corruption mobilizes three types of parties to French clientelism: nominated or elected politicians (ministers, deputies, aides), administration officials (political nominees or career civil servants), and entrepreneurs. It is in this framework that *pantouflage* is extremely efficient, because the same party represents diverse professions or social worlds. In the same manner that the accumulation of public mandates sets up a circulation of information sharing and decision making between different levels of the nation³⁶ the corruption network borrows its logic of interpenetration from the top management of large firms: an exchange of seats

³⁴ Schmitter and Lehmbruch, *Trends Towards Corporatism Intermediation*. S. Berger (ed.), *Organising Interests in Western Europe* (Cambridge, Cambridge University Press, 1981). J. H. Goldthorpe (ed.), *Order and Conflict in Contemporary Capitalism* (Oxford, Clarendon, 1984). G. Lehmbruch, 'Concentration and Structure of Corporatist Networks' in Goldthorpe, *Order and Conflict in Contemporary Capitalism*.

³⁵ R. Wade, 'The system of administrative and political corruption: canal irrigation in south India', *The Journal of Development Studies*, 18/3 (1982). R. Wade, 'The market for public office: why the Indian state is not better at development', *World Development*, 13/4 (1985).

³⁶ Mény, *La Corruption de la République*.

on company boards allows for the development of an informal network that serves as a support structure for relationships between cartels. In a country like France, coalitions have always created private-interest groups because the structures of capitalism have been forged by the power of cross-participations and been managed by parties coming from influential state institutions.³⁷ In this context a firm is a visible segment of a larger whole, itself opaque and blurred.

Neo-corporatism is thus a social system in which the state helps create private mediators by offering them a monopoly of expertise in exchange for co-management of the problems likely to arise. Pressure groups need access to politicians (a privileged access to decisions and public resources thanks to the monopoly of representation) and the latter need information from pressure groups as well as their ability to stabilize the social environment of a public policy. There is therefore a mutual arrangement and an exchange of different resources (economic, social and political power). The legal networks of neo-corporatism include in a more or less formal fashion professional people, high civil servants from the main departments of the state who have the ability to look at political problems from a technical angle and at technical problems from a political angle and finally, elected politicians. In theory, then, information exchanges, transactions and dealings between mediators and the state take place through legal networks. In areas as important as industrial politics and the politics of energy or telecommunications, the members of the mediator network come from the same elite schools (Polytechnique, l'ENA, etcetera)³⁸ and their work is developed on the fringes of administration, politics and the markets structured by public and private sector businesses. From this point of view, in neo-corporatist systems, mediation networks of administration are made up of the most politicized elite of the public service. French-style large scale corruption could not have been developed without a politicization of the administration (the criterion of allegiance as a key variable in the development of the career) and a bureaucratization of politics (politicians coming from the civil service). The financing of the political parties by private mediators or leaders of profit-making firms was at the origin of the development of French-style corruption.

Legal networks of information and expertise, even if they are not always transparent (to ensure speed and efficiency) enable the politico-administrative machine to function.³⁹ Unfortunately, legal and functional networks favour the

³⁷ The French case demonstrates a 'relative cohesion of politico-administrative élites, their socio-cultural profile, training, world view, interests, which go beyond political or "ideological" nuances (...). The progressive immersion of the state bureaucracy in the world of partisan politics has had an impact on the ethical traditions which underpin the entire system (...). The ENA [École Nationale d'administration] has established itself at the same time both internally, in the administrative field, where it has monopolized positions of power, and externally – first, in the world of politics, then in the business world, initially in the public or mixed sectors, then increasingly in the private and multinational arena.' Suleiman, *Les élites de l'administration*.

³⁸ Suleiman and Mendras, *Le Recrutement des Elites en Europe*.

³⁹ From this perspective, Dupuy and Thoenig observed that 'the conviviality of the accumulator [*cumulant*] and the civil servant takes on a very specific form and function: that of a network which puts disparate groups together. The links between civil servants and accumulators and the exchanges of influence, provided they can be of significance for the sole interests of the partners, are a public fact which ensures that a collective function of rebalancing power between the sphere of representation and that of bureaucracy (...) administration does not function in pyramid fashion, it

emergence of illegal networks of corruption and 'third parties standing firmly on their ground' (mediators) become either bribe givers (lobbies, firms) or else intermediaries of illegal transactions (civil servants). Mediators operate on the margins by refusing to speak freely and openly.⁴⁰

In this context, the exchanges of resources and favours are very similar to gentlemen's agreements which resemble the system of gift-exchange revealed by anthropologists. Agents cannot seek to maximize their resources for this would run the risk of destroying the social dimension of the exchange.

The Corruption Network Organizes Connections Between Legal Meeting Places

The network needs an antechamber to find and test the competencies and reliability of its future members. The corruption network of a political party develops and utilizes community structures for constructing and enlarging relationships (informal think tanks, specialist committees, hunting clubs) and creates legal organizations to cover its activities (research and development offices, law offices, consultant firms, para-municipal non-profit organizations). The network serves above all to establish contacts between parties of diverse sectors by progressively building up confidence through an increase in reciprocal knowledge. 'Social clubs' between industrial sectors and high administration and/or party officials hypothetically serve to circulate information – normally, but not always, in a legal manner. These networks are structures of personal contacts. The more the antechambers are open to new members, the more they are efficient through positive externalities, since the satisfaction of the member increases as a function of the number of users.

On the other hand, adherence to a corruption network is all the more profitable when customers are few and suppliers are numerous. The externalities of corruption networks then become negative because the satisfaction of the member is in decreasing function to the number of users. In other words, the corruption network functions in a relatively closed circuit. No empirical evidence exists yet on the effects of this negative externality on the price of transactions. Likewise, it is far from certain that rent suppliers (e.g. politicians) seek to augment the number of potential clients (entrepreneurs) to benefit from bigger bribes resulting from the highest-bidder effects of competition.

The Corruption Network Centralizes Supplies and Demands of Separate Entities

The dynamics of corrupt exchange become more complex when the system is developed by several groups of collective parties – groups not usually involved with one another on a regular basis. A situation in which supply and demand are forged out of several entities that do not entertain personal relations from

goes forward, driven by third parties holding their ground.' F. Dupuy and J.-C. Thoenig, *L'administration en miette* (Paris, Fayard, 1985).

⁴⁰ As Becquart-Leclercq puts it, 'Relational networks echo the fabric of official relationships, only more so as the bureaucratic and administrative machinery are more rigid. The relational network shows the weak points of the system, it is a way to seize power again for those who do not have enough or want more. In the end, the relational network is a cumulative capital ensuring advantages for those very people who already have something going for them (such as their income or education) but rarely a compensation for the most impoverished people. The network reinforces the inequalities of power upon which it rests, but it stays within the limits of cultural legitimacy and legality.' Becquart-Leclercq, 'Paradoxes de la corruption politique'.

the start necessitates a higher degree of organization. Take as an example the case of a legislative decision involving diverse companies, which will be handled by different ministers. We have, on the one hand, an associative structure of service suppliers (ministers and the National Assembly); on the other hand, we have circles of clients who share the same interests (companies). For example, all cigarette manufacturers (a cartel) collectively want to purchase the rejection of an anti-tobacco law which is to be considered by deputies. To do this they must finance several individuals (deputies, ministers of several administrations, experts, high state officials) who come from (or not) different political parties. In this case the transactions necessitate intermediaries or mediators who lobby interested parties, then centralize the supplies and demands of concerned parties, carry on the negotiations and take care of payments, controls and so forth. The intermediaries work at clandestine and illegal lobbying.

This type of network is organized on the basis of sporadic convergences and it is the person of the mediator who offers security guarantees and establishes favourable conditions for the execution of the operation. Through repeating actions, developing complicity, searching for relational continuity and stability, and appearing indispensable, the sporadic organization is led to strengthen its structure.

The Heterogeneity of Exchanged Goods in Corruptive Transactions and Temporal Delays

The network plays the role of a translator of interests, creating an informal standard of measure (a kind of informal equivalent or exchange rate) for widely diverse goods and objectives. Thus, the network is an intermediary of exchanges. It makes room for the addition of things which are not normally associated without necessarily reaching the stage of monetization (bribes); it also authorizes delays in time. In other words, the resources exchanged are diverse (economic, political, social, symbolic and so forth) and in order to avoid waiting and transaction costs linked to barter (problem of double coincidence), measurement and compensation systems become necessary. Over time the exchanges of favours are not always monetized and paid in full. We have here an unequalled futures market of favours and privileged information. The network authorizes systems of delays and compensations which are multiple and multilateral in time and in space. For example, a contribution to an electoral campaign fund offered by a company, or the repurchase of a local newspaper, or the payment of an assistant, may lead much later on to accessing confidential information (which may or may not be used), a contact (employed or not) or a contract – the whole structure therefore being hard to budget within the framework of a cost-benefit analysis. Running debts between the different entities are never totally paid off. As these debts circulate they help maintain network links.

The heterogeneity of values mentioned above implies that the goods and resources in circulation are diverse (financial, narcissistic statue). Corruption networks cannot function in this manner without having ends much larger than merely individual and egotistical enrichment. The value system authorizing the establishment of a network and determining the integration of each member largely surpasses the material and monetary domain. We must therefore describe the set of values mobilized and intervening in the assignment of an individual to a network and in the construction of his dependence upon it.

Consequently, operative transactions cannot be reduced to a strictly utilitarian framework of purely market relationships. While principles of reciprocity and negotiation exist as foundations of human relationships in all societies (excluding totalitarian societies), their forms are highly diverse – and this diversity influences the concrete configuration of corruption.

The Corruption Network: a Virtual Tool

The corruption network may or may not be activated. It is not on duty at all times, but it retains a (virtual) record of past transactions (norms, amounts, techniques) and prepares future transactions. That the network is virtual does not imply that its relationships are temporary as in the analysis of the corruption market. On the contrary, this form has a good memory for past transactions and gives rise to stable, mandatory percentages, or offers, between the network partners concerned. This rigidity avoids constant bargaining which could otherwise develop owing to the will for a 'just' but complex calculation. This would be dangerous for security in view of the risks of visibility arising from tensions and the dangers implied by violent breakdowns in negotiations. The organization of corruptive transactions into networks does not aim at suppressing the divergence of interests between suppliers and demanders, but seeks to avoid the power struggles that would weaken the whole system.

Corruption Networks, Knowledge, Security, Confidence and Protection

Given that the corrupt exchange cannot be endorsed by a neutral juridical authority to which participants can refer in case of conflict, the network is a space of complex interpersonal relations creating confidence through a process of learning by doing. The organized form of the transactions guarantees the smooth conduct of operations. Political alliances at the local or national level, inside a party or between parties, are necessary to govern political authorities. Alliances form the basis of a complicit passivity on the part of political players who, while being outside the corruption networks, cannot denounce them because they are bound by multiple allegiances.

The notion of network imposes itself once the creation of riches in illegality necessitates forms of protection, of which 'clientelist' redistribution is one of the most efficient. In the absence of consensual redistribution, threats and violence are often the only recourse left for 'holding together' multiple partners (or passive observers) and for forcing them into correctly carrying out corruptive transactions.

Conclusion

Our theory of social networks of corruption seems more likely than a traditional political economy approach to explain those periods characterized by the stability of the prices of corrupt transactions and the meagre sums often asked by people who have been corrupted. Indeed, there are many important public decisions which have been 'sold' in exchange for a mere family holiday, or the building of a swimming pool; and similarly, overbidding – except for Italy in the eighties – has been rather rare in Europe. Security for corrupt and corrupting people comes from their ability to limit themselves in their social exchanges.

Real networks of corruption combine, in varying proportions, the three variables of coordination and the forms of rationality accompanying them. Let us present three synthetic cases, ranging from one with the highest degree of solidarity to one with the highest degree of competition, via one with the highest degree of hierarchy.

- *A tribal system of corruption* creates strong barriers to entry (ideological, economic, ethnic and so on), which make more certain, but also more complex, its rise to power. This type of network is founded upon relationships of confidence and a relatively stable 'village' hierarchy. The corruption of the mafia clan is a particular case because it integrates threats, blackmail, and violence into its mobilized resources. Extortion is one of the objects of this type of network, which has a tendency to create transaction price inflation. In this framework, the supply of corruption often exceeds the demand.
- In cases where the situation is characterized by an integration of entities into a network of activity (e.g. politician, civil servant, managers belonging to the same political party) one must study the principles of *intra-organization coordination* and its consequences on profit-sharing between the party and the individuals. In this context, corruption supply and demand are balanced and no parties to the transaction play a dominant role. The image of a purely market mode of coordination is in this case a deformation of corruptive reality. This image must be replaced by the principles governing constructions of authority and hierarchy in the network. That said, the construction of this authority remains forever conflictual and implies that the form of organization can go through phases of stability and instability. Stable phases authorize the general and relatively abstract fixing of transaction prices, while unstable phases lead to redistribution conflicts, renegotiations, conflicts of interest and transaction price fluctuations.
- In cases where the parties involved in corruption do not entertain direct relationships (same village, same political party, same school) we find two independent structured entities negotiating the transaction. We must in these cases study *inter-organization coordination*, keeping in mind that, from case to case, it is the supply that exceeds demand, or the opposite (cf. the effect on prices). Taking a lead from the socioeconomics of organizations, we need to analyse what happens in each of the two 'black boxes' before and during the transaction. The effects of each organization's collective procedures on the negotiations and on the transaction do not authorize recourse to analyses in terms of balance (theory of competing markets). Each of the two entities is a site of collective procedures that aims at controlling its competition (which obviously exists) and at avoiding overly great price flexibility which could turn out to be destructive to this 'market'. This third situation seems the most fragile, because it includes the risk of tension and breakdown which can lead to denunciations.

As these three cases show, furthering our knowledge of the notion of corruption networks still necessitates numerous empirical studies in order to validate the initial theoretical hypotheses summarily presented in this paper. A new theory of transaction prices and their effects on the evolution of the phenomenon can only be accomplished given this condition.