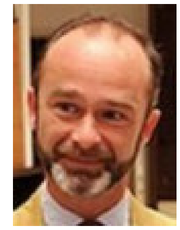
Raising limits on cash payments sends the wrong signal in Italy's fight against corruption



Many states have a limit on the size of payments that can legally be made in cash, with anything above this limit needing to be transferred via traceable methods of payment such as bank transfers or credit cards. As **Andrea Lorenzo Capussela** *writes, Italy's PM Matteo Renzi recently proposed an increase in the country's €1,000 threshold for cash payments up to a €3,000 limit. He argues that the government's measures are likely to undermine attempts to fight tax evasion and curb the informal economy, noting that while the government itself may not be complicit in illegality, the incentive structure that has led to this measure being proposed raises serious questions about Italy's capacity to tackle corruption.*

In May, the Italian parliament passed an anti-corruption law. The bill was also intended to tighten the criminal sanctions for accounting fraud: before it was approved, however, with the government's consent four crucial words were deleted from its text. Two weeks later, Italy's Supreme Court certified that their deletion has effectively liberalised accounting fraud. The government now wants to allow wider use of cash, which is limited in many European states. The proposal before parliament is to treble the €1,000 threshold above which only traceable means of payment – such as cards or bank transfers – can be used.

Neither measure is supported by serious justifications, and both are damaging. The cash threshold is intended to fight tax evasion and curb the informal economy, and trebling it is unlikely to help. More importantly, accounting fraud discourages investment and is the usual companion of both corruption – businesses must falsify their accounts to create the slush funds out of which bribes are typically drawn – and tax evasion: decriminalising can only harm economic growth and make corruption and tax evasion easier.

Admittedly, corruption and tax evasion are already so widespread in Italy that neither of these two measures is likely to increase them significantly. Their most damaging effect is indirect. The two choices of the government, and their remarkable consistency, shall harm the credibility, and therefore also the effectiveness, of Italy's effort to fight corruption and tax evasion, because they signal, openly, that the government's reform programme does not really aim at the roots of the country's governance problems.

The question is why. And it is an important question because the pervasiveness of illegality – not just corruption and tax evasion, but also organized crime and the worst forms of clientelism – is arguably the most conspicuous difference between Italy and its peers, and a decisive cause of its economic problems.

The answer is not to be found, I would argue, in the quality of the present government, which may not be ideal but seems better than most past ones and probably superior also to any realistic alternative. The problem rather lies in the incentives under which the government operates (I refer here to those strands of the politico-economic literature associated with the writings of Douglass North, Dani Rodrik, Daron Acemoglu and James Robinson).

Incentives that are shaped, in turn, by the logic of Italy's increasingly vertical, personalized, mediatized political system (described, among others, by Marco Revelli), which tends to discourage electoral and political participation, stifle public debate, undermine intermediate organizations, and weaken political accountability, while strengthening the influence of special interests.

If organized interest groups demand policies beneficial to them but harmful to the public interest, those incentives are likely to lead the government to oblige, because the citizens who bear the cost, in often imperceptible measure, generally lack the information, the spur, and the organization to react collectively. They typically remain silent – as described in Mancur Olson's Logic of Collective Action and the literature it spawned. Yet their silence reinforces that logic, for political accountability atrophies if it is rarely enforced.


Matteo Renzi in Sesto Fiorentino. Credits: Alex Valli / Wikimedia Commons (CC BY-SA 2.0)

Hence the origin of those two apparently incomprehensible measures: organized interest groups – business and retailers' associations, presumably – demanded them. The segments of the governing coalition that have their voters and clienteles in those sectors supported them. There was no countervailing force to lean against their pressure. So the government accepted their demands, in the knowledge that neither its voters nor the citizens at large would have protested. Rejecting them would merely have weakened the government's political support and, with it, its ability to implement its ambitious (and widely praised) reform programme.

One could retort that favouring illegality contradicts much of that programme, or else argue, more radically, that the government ought to have rejected those demands out of principle. But this would lead us to a discussion about ends and means, or politics and morality, which is as legitimate as it is distant from the reality of Italian politics. For those arguments clash with the fact that in a short-term perspective the logic of the government's choices is as cogent as it appears cynical: it was rational for it to decriminalise accounting fraud, which has already yielded a net political benefit, and now to propose expanding the scope for anonymous cash payments, expecting a similar yield.

If that is the problem, the solution can hardly come from within the political system. As argued by Machiavelli – e.g., in Discourses, I.18 – well-ordered republics rest on 'civic virtue': not in the perfectionist sense, but in the sense that the citizens' willingness to act publicly for the public interest is truly the backbone of a functioning republic. A plausible reading of Italy's governance problems, in fact, suggests that only the collective action of citizens can reverse the logic I have sketched above.

Collective action is hard to organize, however, because few effective intermediate organizations remain, and much of the electorate seems in the grips of a passive, resigned form of distrust for politics. Berlusconi gone, moreover, civic engagement has lost a scandalous but convenient adversary to rally against: now collective action must aim at a more elusive target – the inefficiency of the political system, which Berlusconi exploited, symbolised, and exacerbated.

Yet, were citizens to succeed in imposing a political price on the government for disregarding the public interest they would begin to alter its incentives, by strengthening political accountability. And progress would be sustainable, for success breeds audacity.

The good news is that on the trebling of the cash threshold there was a reaction. An anti-corruption organization, which is part of a broader European network, has launched a petition to persuade the government to change its mind (disclosure: I was involved). The petition has attracted a rather large number of signatures (almost 45,000 as of this writing) for Italian standards, and the attention of Italy's main newspaper, which has published a long article by one of its most prominent journalists.

Of course, Italy's post-war history does not lack examples of civic mobilization. But this initiative is a rare one, since Italy has returned to political normalcy after the height of the Eurozone crisis: should it succeed, the evolution of Italy's political system could begin to change.

Small as it may seem, therefore, this episode deserves some attention also from abroad. Because corruption and tax evasion weigh heavily on Italy's debt-to-GDP ratio, which remains the biggest latent threat to the survival of the euro. And because a more open democracy can better discuss, and more effectively implement, the deep changes that Italy must undergo in order to become not just a better state for its citizens, but also a better partner for its European peers, as they discuss the future of Europe.

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Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor o the London School of Economics.

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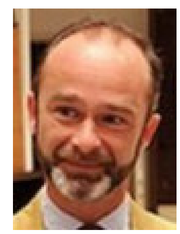

Andrea Capussela holds a PhD on competition policy. After a few years in the private sector, he served as the head of the economics unit of Kosovo's international supervisor, the International Civilian Office, in 2008–11, and as the adviser to Moldova's economy minister and deputy prime minister, on behalf of the EU. He then took a sabbatical period, during which he wrote one book (State-building in Kosovo: Democracy, EU Interests and US Influence in the Balkans, I.B. Tauris: London) and is conducting research on another one.

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