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Gaming the system: strategies of camouflage

Introduction: gaming the system
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The notion of ‘gaming the system’ may be summed up as manipulating the formal rules and procedures that are intended to preserve an existing system, in order to exploit that system for one’s own purposes. The notion does not, however, lend itself to a simple definition, as is shown by the complexity and richness of the material contained in this chapter. In my introduction, I offer some reflections on the degrees of complexity of the informal practices described here; on family resemblances across the practices of different countries; on the importance of symmetry between formal rules and informal norms, and, since the period that followed the end of communism in the Soviet Union and Eastern Europe offers so many rich examples of gaming the system, on the effects of post-communist social change.

Complexity

A system can be gamed with widely varying degrees of elaboration. Parking your car in a disabled parking space barely qualifies as gaming the system, even if you get away with it. You have secured the advantage of a parking place by breaking a formal rule; that is all. That is akin to simple fare-dodging. If, however, you illicitly acquire a ‘Disabled’ sticker for your car and then park in a disabled parking space, you are gaming the system in a
slightly more elaborate way. A cartoon by Alex (Daily Telegraph 2016) illustrates a particularly sophisticated variation on the theme of insider trading (see insider trading in USA, 6.16 in this volume). A city trader thanks a financial analyst for his share tips, which are invariably wrong. The gratitude is double-edged. By basing some of his trades on those tips, the trader can keep his overall performance down to a level at which it does not arouse suspicion. The rest of his trades are based on inside information.

In gaming the system, complexity can vary a great deal. Blat in Romanian usage can refer to something as straightforward and innocent as hitching a ride, through fare-dodging on public transport to giving (and taking) bribes. In Arabic, ṭūṣṭ can refer to informal intermediation in family disputes but also to ‘politicians swapping political largesse for votes’. Intermediary in exchanges of favour (see economies of favours in Chapter 1) may simply help the speeding up of a bureaucratic procedure or it can be used to protect students from extortion of informal payments by instructors and teachers.

Some of the terms explored in this chapter, however, are highly specific. They do not permit a great deal of variation in the sophistication with which they are applied, and they seem to be endemic to a particular country. This is true in particular of externe Personen in Germany and flipping by British members of parliament. What makes them so apparently specific? Could they be assimilated into informal practices of a more general kind?

**Family resemblances**

‘Gaming the system’ applies to a range of activities that bear a certain family resemblance to one another. In this it resembles the word ‘game’ itself. It is impossible to concoct a neat definition of ‘game’ that covers card games, board games, ball games and children’s games like ring-a-ring-a-roses. Very little is in common between all of these. Rather ‘Similarities crop up and disappear’, like family resemblances (Wittgenstein 1953).

Are there groups of family resemblances within the most general characteristic of gaming the system, namely that of winning some advantage by acting against the spirit of the formal rules? It seems that there are. One family resemblance is the role of informal, sometimes illicit, intermediaries who secure, or try to secure, some advantage for someone from a third party who is in a position to provide that advantage. ṭūṣṭ in the Middle East, torpil in Turkey, pulling strings in the UK and USA and raccomandazione in Italy all have this in common. This family resemblance is visible across societies in which patron–client relations are readily observed and societies in which they are not. In each
case the practice can take forms that are regarded as scandalous and other, milder forms that may be regarded as routine.

Another family resemblance across the varieties of system-gaming is that an element of wheeling and dealing is involved, something that requires a certain skill, know-how and daring. This is apparent in a number of the practices described below but perhaps most strongly in the Bulgarian s vrutka and the Polish kombinacja. The entry on s vrutka in Bulgaria says that ‘The phrase ... invokes creativity, fluidity and mastery of the social milieux and social and cultural knowledge’. The entry on kombinacja in Poland quotes sociologist Joanna Kusiak as saying that kombinacja ‘has been considered a skill which one should be proud of’ (Kusiak 2012: 296–7). These descriptions lead one to wonder what the relationship may be (across countries) between entrepreneurship and the wheeling-and-dealing varieties of informal practice. Are s vrutka and kombinacja practices that amount to informal (unincorporated) enterprise? Or are they behaviour that is provoked by a bureaucratic environment inimical to business?

There is a rich source of data on national rates of business ownership and on national environments for enterprise, assembled from surveys conducted by the Global Entrepreneurship Monitor. That might be one source on which to draw in making cross-country comparisons of entrepreneurial informal practices.

**Formal rules and informal norms**

The entry in this chapter on cash in hand in the UK raises the question of the correspondence or lack of correspondence between the norms, values and beliefs underlying a society’s informal institutions on the one hand, and its formal institutions on the other: where there is a lack of correspondence between the two, cash in hand is more likely to be a common practice. Empirical studies across many European countries support this conclusion.

Is this true of informal practices in general? If most of the individuals in a society trust that society’s politicians, police officers and tax inspectors and have internalised the values embodied in official arrangements, there will be less tolerance of tax evasion. The same might well apply to pulling strings in the UK, insider trading in the USA, and otkat (kick-backs) in Russia, to take a few more examples of informal practices described in this chapter.

There are, however, some other practices that amount to a semi-formal repair of a defective area of legislation: the no entry system in
Hyderabad, India, for handling property transactions on land where formal property rights are not established, is one example. It has evident uses in developing countries; there are parallels in Bogota, Cairo and in some sub-Saharan African countries. It is not obvious that in cases like this an asymmetry of informal and formal norms and values is necessarily involved; rather, the defective machinery of state needs patching up, and the patching up is done by an informal practice that has acquired a degree of formal support.

Other informal practices seem mostly to depend on a divergence between formal and informal norms. That probably would help to explain two phenomena: the popular view of some practices that they exist in ‘good’ and ‘bad’ versions (e.g. kombinacja in Poland and tapş in Azerbaijan) and that there is often a moral stigma attached to a practice in which many people nonetheless engage (such as raccomandazione in Italy).

Are there countries where formal and informal norms substantially converge, and confidence in formal institutions is high, so that our informal practices play only a marginal role in people’s lives? This may be idle speculation, but I am struck by the absence, in the wealth of material provided here, of examples from the Nordic countries – the perennial good guys (along with New Zealand) in Transparency International’s Corruption Perceptions Index. Perhaps there really is an unusual degree of congruence between formal and informal norms in the Nordic countries (see janteloven in Denmark, Norway and Sweden and Vetterliwirtschaft in Switzerland (3.11 and 3.15 Volume 1)).

Post-communist transformation

The end of communism in Europe meant the end of certain informal practices. For example, the tolkach – the Soviet enterprise’s supply fixer – was needed only as long as the Soviet Union was a shortage economy with centralised supply-planning. The end of enterprise output targets meant the end of the games described by the economist Janos Kornai for Hungarian light industry. In a rare empirical study of state-enterprise performance, Kornai showed how fulfilment of output targets had a bi-modal distribution. If, near the end of the year, it became clear that you, the enterprise director, were going to miss your output target and therefore fail to collect your bonus, it made sense to miss it by a clear margin in the hope of securing a correspondingly easier target next year. If you were going to collect this year’s bonus anyway, it equally made sense, for the same reason, to over fulfil only narrowly (Kornai 1959).
At the same time, the end of communism meant the beginning of many other informal practices that replaced blat and enabled the transition to work (Ledeneva 2006). Some could exist only in a world of private enterprise. The Russian term dzhinsa, for example, denotes paid-for material presented in the media as ordinary news. Ukrainian deryban – the looting of state property – is also dependent on there being non-state entities to sell to or otherwise do business with. It might be argued that the environment required for these practices is not simply that of a private enterprise, market economy, but a poorly regulated private enterprise, market economy. In any case, private enterprise is a necessary, if perhaps not a sufficient, condition for such practices to flourish.

Some practices, including deryban in Ukraine, may be limited to the early phase of economic transformation: the period depicted so vividly for Russia in Steven Solnick’s Stealing the State (Solnick 1998; see also Chayes 2015). After all, the point comes when, in the popular phrase, there is no more state left to steal. What happens then? One answer, at any rate in some ex-communist economies, is asset-grabbing from existing private owners, or reiderstvo. As is described in this chapter, reiderstvo has evolved from asset-grabbing by the use of private violence to asset-grabbing with the assistance of law enforcement agencies and the courts. Indeed it can on occasion end with the state’s taking back an asset previously privatised: capture of the state gives way to capture by the state.

Some informal practices appear to be more marked in ex-communist than in never-communist countries, though not confined to the former. An example would be wages in an envelope, alga aploksné in Latvia but also cash in hand in the UK. Others, such as reiderstvo and Russian ‘bankruptcy to order’ (zakaznoe bankrotstvo), seem on the face of it to be specific to some former Soviet states. If this is really the case, and not just a reflection of unavoidably incomplete coverage, it suggests that many informal practices observed in the ex-communist world are a response not to capitalism as such but to capitalism when combined with a weak rule of law.

Free-riding (staying under or over the radar)

6.1 Cash in hand (general)
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In the UK in particular and in developed economies more generally, a recurrent question that customers ask of tradespeople, such as those
doing home maintenance and repair work, is ‘How much for cash?’ Similarly, it is commonly the case that such tradespeople will give customers an official quote for doing a job with value-added tax (VAT) included, and then say, for example, ‘or 20 per cent less for cash in hand’.

‘Cash-in-hand work’ refers to monetary transactions that are unregistered by, or hidden from, the state for tax, social security and/or labour law purposes but that are legal in all other respects (Williams and Windebank 1998; European Commission 2007; Williams 2014a). ‘Cash-in-hand’ work has been denoted in other contexts using over 45 different adjectives and 10 different nouns. It has been called the ‘black’, ‘concealed’, ‘informal’, ‘irregular’, ‘hidden’, ‘invisible’, ‘off the books’, ‘subterranean’, ‘undeclared’, ‘underground’, ‘unobserved’, ‘unorganised’ or ‘unregulated’ economy, sector, work, employment, activity, sphere or realm, to name but a few of the adjectives and nouns employed. It is immediately apparent when one examines these adjectives that they all describe something that is absent, insufficient or missing.

The one thing absent from ‘cash-in-hand’ work, and its only illegitimate feature, is that it is not declared to the authorities when it should be. It is not declared for three reasons: to evade paying direct or indirect taxes (income tax in the former case; VAT or excise duties in the latter); to make a fraudulent benefit claim (where someone who is officially unemployed claims state benefits while working); and to avoid labour legislation (such as employers’ insurance contributions, minimum-wage agreements or safety standards in the workplace). Cash-in-hand work covers only activities where the means do not comply with regulations but the ends (goods and services) are legitimate (Staudt 1998). It does not include criminal activity where the goods and services are themselves illegal, such as drugs-trafficking. The only illegitimate feature of cash-in-hand work, to sum up, is that the monetary transactions are not declared for tax, social security or labour law purposes (Thomas 1992; Portes 1994).

Examining the extent of participation in cash-in-hand work, an English Localities Survey conducted at the turn of the millennium found that 4.6 per cent of those surveyed had engaged in cash-in-hand work in the past 12 months (Williams and Windebank 2001). Similarly, a 2013 Eurobarometer survey found that 4 per cent of respondents across the European Union (EU) had engaged in cash-in-hand work in the previous 12 months (Williams 2014b). These were, however, likely to be lower-bound estimates given the likelihood of under-reporting in these surveys.

Cash-in-hand work has traditionally been viewed as low-paid waged employment forced on marginalised populations by unscrupulous
employers (Gallin 2001). Since the turn of the millennium, however, it has been recognised that much cash-in-hand work is conducted not only voluntarily but also on a self-employed basis. More recently, it has been recognised that much of this work is conducted for and by kin, neighbours, friends and acquaintances for community-building and redistributive rationales (see ‘paid favours’, 2.5 Volume 1) (Williams 2004a, 2004b; Williams and Windebank 2004). Indeed, the English Localities Survey found that some 20 per cent of the cash-in-hand work that respondents had undertaken had been waged employment, 15 per cent had been self-employment for previously unknown customers and 65 per cent had been ‘paid favours’ (Williams and Windebank 2001). This finding was reinforced at EU level in a 2007 Eurobarometer survey, which found that in the EU 20 per cent of cash-in-hand work had been waged employment, 25 per cent had been self-employment for previously unknown customers and 55 per cent had been paid favours (Williams 2014b).

How can participation in cash-in-hand work be explained? In recent years, the lens of institutional theory has been increasingly used. In institutional theory, institutions are defined as the cognitive, normative and regulative structures that give stability and meaning to social behaviour (Scott 1995). Institutions or governance mechanisms exist in every society (North 1990; Baumol and Blinder 2008). On the one hand, there are formal institutions, which are the codified laws and regulations. On the other hand, there are informal institutions, which are the ‘socially shared rules, usually unwritten, that are created, communicated and enforced outside of officially sanctioned channels’ (Helmke and Levitsky 2004: 727); the norms, values and beliefs held by citizens reflect their individual views about what is morally right (Denzau and North 1994).

The norms, values and beliefs of a society’s informal institutions may be ‘complementary’ if they reinforce formal institutions, or ‘substitutive’ if the rules they prescribe are not compatible with the formal institutions (North 1990; Helmke and Levitsky 2004). When there is symmetry between formal and informal institutions, cash-in-hand work will be largely absent since citizens will adhere to the legal rules of the game. If, however, there is asymmetry between a society’s formal and informal institutions (caused for example by a lack of trust in government), cash-in-hand work is more likely to be prevalent (Feige 1999). The view has therefore emerged that, the greater the non-alignment of formal and informal institutions, the greater the likelihood of cash-in-hand work (Williams et al. 2014, 2015, 2016; Williams and Shahid 2016).
Evaluating whether or not this is the case, numerous studies have analysed whether there is a statistically significant correlation between participation in cash-in-hand work and institutional asymmetry. These studies have used ‘tax morality’, which refers to the intrinsic motivation to pay taxes (Torgler 2007; Cummings et al. 2009), as a proxy for institutional asymmetry. They have found a strong statistically significant association between participation in cash-in-hand work and the degree of institutional asymmetry in the EU (Williams and Horodnic 2016a), East-Central Europe (Williams and Horodnic 2015a), the Baltics (Williams and Horodnic 2015b, 2015c), South-East Europe (Williams and Franic 2015; Williams and Horodnic 2015d) and the UK (Williams and Horodnic 2016b). Studies have also revealed that socio-demographic and socio-economic groups with lower tax morality are more likely to engage in cash-in-hand work (Williams and Horodnic 2015a, 2015b, 2015c, 2016a, 2016b).

This opens up a new avenue for tackling cash-in-hand work, suggesting that there is a need to move beyond stricter penalties and higher risk of detection. Rather, it is necessary to tackle the causes both by improving formal institutions and by raising citizens’ norms, values and beliefs through campaigns to increase awareness of the benefits of taxation and the public goods and services that are provided by tax revenue (Williams 2014a).

6.2 Blat (Romania)
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In its primary sense, blat in Romanian means ‘cake batter’. Colloquially, however, it has many more colourful meanings, which have been in common use for many years. The first documented use of the term dates back to 1906, in a newspaper article describing prison life (Zafiu 2009). Later, in the period between the two World Wars, it acquired new meanings. It might refer, for example, to a thief’s accomplice, a friend, cheating at cards, or acting out of camaraderie.

During the communist period (1947–89), the word grew increasingly popular and its meaning more specific. At that time, it was used mainly to denote informal ways of securing access to various kinds of services, usually by means of negotiating with state officials. In the late 1950s, dictionaries defined blat as meaning ‘comrade’ or ‘friend’ – meanings that are now lost – while the verb a blătu in those days meant ‘to make an arrangement’ or ‘to reach an agreement’ (Ciorănescu 1958/
Later, the term acquired the meaning ‘to hitch a [free] ride’ or ‘thumb a lift’. Travelling by blat became part of youth subculture and was romanticised in songs such as ‘The train without a godfather’ (‘godfather’ in this sense meaning a ticket inspector) performed in 1984 by the rock band Iris, and ‘The hymn of the blatists’, a hiking song popular in the 1980s.

After the collapse of communist rule, Romania’s newly independent media made frequent use of the term blat to mean fare-dodging not only on the railways but also in the context of sports events and match-fixing. The word’s multiple meanings are spelled out in the Explanatory Dictionary of the Romanian Language (Academia Română 1998, 2009) and in the dictionary of slang (Volceanov 2007): these range from fare-dodging on a train or watching a show without buying a ticket, to more general forms of illicit activity, such as paying a bribe or securing influence by exploiting one’s connections. The term is also found in the pun Blătescu, meaning ‘Mr Freedrider’ (Zafiu 2001: 222). Terms commonly used today include ‘to practise blat’ (a face blatul), ‘to travel by blat’ (a merge pe blat), and simply ‘to do something by blat’ (pe blat), that is, secretly or furtively. The etymology of the word is contentious. Some linguists suggest it is German or Russian in origin (Zafiu 2009: 15) while others argue, more plausibly, that in the case of both Romanian and Russian its origin is Yiddish.

In both Romania and Russia, blat denotes the exchange of ‘favours of access’ at the expense of public resources (Ledeneva 1998; see also blat, 1.1 Volume 1). It follows that, in both countries, the practice stands in clear opposition to the official rules and subverts the formal economy. Linguistic and etymological similarities apart, however, the way in which blat is practised differs significantly in the two countries. This relates not only to the nature of the exchange and the scale of the transaction, but also to relations between the participants and the duration of their relationship over time. Unlike the Soviet practice, which was essentially non-monetary and was closely linked to relationships based on friendship, the Romanian variant implies the exchange of money. The amount may vary considerably, depending on the formal price of the service to which access is granted, and it may also be the subject of only a brief negotiation. In Russia, by contrast, blat normally implies, as it did in the Soviet period, either a pre-existing relationship between the participants in an exchange, or the use of an intermediary agent personally related to one or both of the parties. Connections are nurtured and usually extend over an indefinite period of time. In Romania, no such prerequisite is required. More often than not, the connection between Romanian participants is situational and a one-off. Even when exchanges recur, as in the case of
a frequent traveller on a specific train serviced by the same ticket inspector, they rarely lead to the development of a personal relationship or extend beyond the nature of a here-and-now transaction. Whereas in Soviet Russia blat could take the form of a system of generalised exchange, in Romania it was necessarily dyadic and did not entail any future commitments. In Romania under socialism, blat was confined to a limited set of services (such as going to a cinema or theatre, taking a train or bus, getting accommodation) and its primary goal was to minimise costs. In Soviet Russia, blat included access to a wider range of goods and services, and was used to get hold of goods in short supply or of better quality than those available through formal channels (Ledeneva 1998).

Another important distinction between the practices observed in Romania and Russia concerns the post-socialist trajectory. In Russia, the transition to capitalism from an economy of shortage and the resultant monetisation of society created conditions under which blat reoriented itself towards new shortages – whether of money, information or know-how that could be later converted into money. In Romania, by contrast, blat was already a form of monetary exchange, exercised for the pursuit of financial reward, and so it remained in the post-socialist period.

As in Russia, blat in Romania is surrounded by moral ambiguity. In the USSR, the non-monetary character of transactions and familiarity between participants created conditions for misrecognition and concealment (Ledeneva 1998: 59–72, 2000: 185). People involved in exchange networks justified their actions through the rhetoric of friendship, invoking norms of camaraderie and unselfish generosity to discount the moral responsibility of engaging in informal practices. In Romania, by contrast, where money is exchanged and participants are connected only by the transaction itself, the illicit nature of the practice is more easily apparent. Even so, and despite the official representation of blat as petty corruption, illegal and reprehensible, the practice remains common, if not widely accepted. Numerous surveys indicate the pervasiveness of petty corruption in Romania. According to the 2013 Global Corruption Barometer, for example, 65 per cent of Romanian respondents said they thought corruption had increased over the previous two years, whereas 27 per cent said it had remained unchanged (Transparency International 2013). According to the same study, 17 per cent of Romanian respondents claimed to have paid bribes, a figure well above the European Union (EU) average of 11 per cent. It should, however, be noted that, while this and other reports clearly indicate that the incidence of petty corruption in Romania continues to be perceived as high, there is as yet no report that explicitly discusses the blat transactions that are the subject of the present discussion.
The word used for informal payments in blat is șpagă, a colloquial term meaning a bribe but without moralistic overtones. Another expression used to describe payments is the ironic ‘give what one is entitled to receive’ (a da dreptul). It has been suggested that dreptul conveys the idea of pervasive, organised corruption, whereas șpagă is generally used in a more generic sense (Zafiu 2007: 132–3). The vocabulary attests to the fact that official condemnation of blat fails to affect the common understanding of the practice, as is the case with other forms of informality akin to petty corruption (Zerilli 2005).

The scale of blat in Romania has not been scientifically assessed, but estimates of its incidence on the railways and of its economic consequences do exist. While these reports are impressionistic in their findings, they concur in showing that blat is not a marginal phenomenon. Over a period of nine months in 2001, for example, 300,000 individuals were fined for travelling without a ticket (Șerban 2001). Unofficial estimates by the railway police suggest that, between 2005 and 2010, train operators lost as much as 370 million Euros as a result of fraudulent blat transactions, the equivalent of 40 per cent of the total revenue from tickets sold (Cană and Fantaziu 2012). A criminal investigation into 43 railway workers, the majority of whom were ticket inspectors, estimated the damage at 44.5 million Euros (Roșca 2012).

Blat as match-fixing is a hot topic in sports journalism. A search on the websites of two major national publications, Gazeta Sporturilor and ProSport, reveals, respectively, 1,199 and 1,144 entries for the word blat, and 399 and 499 entries respectively for the plural form, blături. But, while blat is believed to be widely practised in sports events, concrete evidence of matches whose outcomes were predetermined by informal agreements is scarce and anecdotal. More often than not, it consists of retrospective confessions of involvement in games that took place at least two decades earlier. Drawing on statements by football-team managers who admitted to having engaged in blat practices, a sports journalist has argued that match-fixing was reconfigured during the season 2001–2 (Udrea 2008). The traditional practice, founded on honour and involving the exchange of commonplace goods such as wine, cured meat or training equipment, was replaced by monetised exchanges devoid of any moral obligations. However, the alleged transformation applied exclusively to teams in the highest home division, and the argument is not supported by sound empirical evidence. Moreover, confessions by retired players indicate that, even under socialism, financial recompense for members of the losing team was a prerequisite of blat matches (Udrea 2011).
Apart from linguistic studies of the word’s origins and semantic reconfiguration, *blat* has so far attracted only limited academic interest in Romania. One of the few studies of post-socialist informality (Stoica 2012) acknowledges the existence of the practice, but focuses on *pile*, the functional equivalent of the Russian *blat*. Very little is known about the structural factors that shaped the development of *blat* and confined it to specific forms of access, or about how transactions are realised in practice. Research is needed to disentangle *blat* conceptually from *pile* and other local practices involving personal connections. The subjective motivation for and rationalisation of involvement in *blat* both during socialism and in the post-socialist period remain largely unresearched; rigorous data collection will be necessary to advance knowledge and understanding of the practice.

6.3 Švercovanje (Serbia, Bosnia and Herzegovina, Croatia, Montenegro)
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Švercovanje is a colloquial term used in Serbia for free-riding on public transport. It is used in slightly different forms in other parts of former Yugoslavia where varieties of the Serbo-Croatian language are spoken: švercanje in Zagreb and švercanje or, still more informally, šveranje in Sarajevo. While the practice of free-riding can be found throughout the world, this entry focuses on the Serbian capital Belgrade, where švercovanje has a long and glorious history. It has developed a rich repertoire of techniques and justifications and traditionally enjoyed considerable cultural acceptance. What is particularly remarkable is the extent to which the practice is used in Serbia as a gesture of defiance to state authorities.

Derived from the German words *schwarz* (‘black’) and *schwärzen* (‘to blacken’), švercovanje is the gerund of the verb švercovati. Švercovati today has two meanings, which are reflected in the different grammatical forms that the verb follows. The first denotes black-marketeering as in ‘to smuggle, trade illegally, speculate’. In this sense, the verb is used in the transitive form. The second meaning denotes ‘free-riding’ and in this sense the verb is used in the reflexive, švercovati se, roughly translated as ‘to smuggle oneself’.

Švercovanje is practised mainly on urban buses, trams and trolleybuses. It may also occur on inter-city coaches and trains, but it is much less frequent there. It is virtually impossible, for instance, to board a
coach without being spotted by the driver. And whereas on trains people may simply try to dodge the ticket collector, a more widespread practice is to collude with the conductor by giving him or her a small bribe (similar to blat in Romania, see 6.2 in this volume), a practice that does not fall under the heading of švercovanje.

In order to qualify as a true case of švercovanje, an act must contain a component of ‘beating the system’. Merely saving money, even if that remains the main motivation, is not the point. Rather, the practice is culturally framed as the underdog versus the powerful and is associated with notions of cunning, courage and popular resistance. A satirical linguistic website defines švercovanje as ‘an excellent opportunity for you to feel at least once a day like an action hero hiding from the evil mutant ninjas’ (vukajlija.com 2016). These ‘evil mutant ninjas’ are the conductors or ticket inspectors – informally known as ridža, after the American general Matthew Ridgway (Andrić 2005) – who are representatives of the ‘system’. They show up unexpectedly, demand to see passengers’ tickets, and (supposedly) fine anyone without one.

Free-riding has been part of Belgrade’s urban lore since the beginnings of its public transport system in the late nineteenth century. A practice especially valued by reckless young men in the decades leading up to the Second World War, but trailing off in the late 1960s, was ‘hooking onto a tram’ or ‘taking a hitch’ (kešanje na tramvaju), which consisted of hanging off the back of the carriage on the outside. Later, ways of tricking the ticketing system changed as the technology developed. Free-riding became easier in the late 1970s, when human conductors were replaced by ticketing machines. Since then, the prospective free-rider is constrained more by moral concerns – personal conscience or (more rarely) reprobation by fellow passengers – than by the (relatively low) risk of being caught by the ridža.

Švercovanje comprises a variety of methods, ranging from ‘passive’ to ‘active’. Passive methods are the most common: keeping on the alert for inspectors, avoiding them whenever possible and leaving the carriage if they approach. An active method is to engage in conversation with the inspector and attempt to get away with free-riding, either by playing dumb (‘I left my pass at home’, ‘I forgot to top up my card’, ‘I got onto the bus just a second ago’) or by being unfriendly, quarrelling with the conductor and refusing their request for an ID. Sometimes these altercations escalate into verbal (or occasionally even physical) fights, and it is usually the švercer who is the abusive actor.

In such on-the-spot rows or in broader public debates, several arguments are used to legitimate švercovanje. Some are economic. A free-rider...
confronted by a ridža may say, ‘I didn’t buy a ticket because I’m poor/unemployed/haven’t received my salary in months’. The same reasoning claims that tickets are too expensive relative to the material status of the majority of the population. Another argument focuses on the quality of service: old, dilapidated, uncomfortable, crammed, unsafe carriages; irregular schedules and long waiting times; wild drivers.

Most interesting are the political arguments. Following Serbia’s experience of undemocratic government in the 1990s, švercovanje may be seen as an expression of political resistance. Another argument is framed in terms of civic entitlement: public transport is a public good and should be free for all. Yet another version of the resistance argument sees švercovanje as a civic fight against institutional corruption. This became particularly popular in Belgrade following the introduction in 2012 of a new electronic monitoring-cum-ticketing system by a public–private partnership between the city government and a Turkish company. Street protests focused on allegations of corruption and of high profits reaped by the private company to the detriment of the public interest. A contemporary website informs users of public transport about their rights and defines švercovanje as a method of conscious resistance (99posto.org 2016).

Such arguments are based on diverse, even contradictory, understandings of the institution of public transport. On the one hand, passengers wish to be treated as customers who should receive service for their money according to the logic of the market; on the other, they see themselves as citizens for whose welfare the state has responsibility (Simić 2014: 185) and who therefore have the right to challenge faulty government policies. As an arena for ongoing confrontation between the micro and the macro, the mundane and the institutional, public transport may be seen as a kind of social laboratory, providing insight into the condition of society and its changing cultural traditions (Živković 2010). The willingness of passengers to pay for a journey may be interpreted as an indicator of the overall level of social trust (Marković 2007). During the transition from socialism, public transport became a potent symbol of the disturbed relations between citizens, with their old and new expectations, and what was perceived as a mostly failing state (Lemon 2000; Simić 2014; Jansen 2015).

Švercovanje is essentially a solitary practice, pitting the individual against the authorities. It is not an exchange and it does not normally establish a social tie. It does not rule out solidarity entirely, but it does not assume it, either. While fellow passengers tend to stay aloof, they are also likely to side with the free-rider. Švercovanje is no great moral violation in Serbia, if at all. On the contrary, it is seen as a way of asserting one’s
rights as a citizen, one’s independence and one’s identity. It is also used to express one’s defiance of or contempt for the powers that be.

It is hard to say how many people in Belgrade engage in švercovanje on public transport. Estimates have fluctuated since the 1980s from as low as 5 per cent to as high as 90 per cent (Marković 2007). The official figure of 2–3 per cent of travellers who have been prosecuted and fined is merely a fraction, since the majority of passengers without tickets go undetected, while the figure of 50 per cent sometimes cited in the press appears inflated. More significant than the actual numbers, however, are the persistence of the practice and the lack of any moral sanction.

6.4 Deryban (Ukraine, Russia)
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*Deryban* denotes the process of distributing public or state-owned resources among a narrow circle of the elite, serving their private interests at the expense of the public interest. It is closely associated with corruption. *Deryban* often occurs by formally legal means, without violations of laws and procedures that are themselves designed in a way that creates opportunities for deryban. The term has been used widely in Ukrainian and Russian. It takes various forms – deryban*ty* (verb), deryban*ivshiy* (participle), deryban*shchik* (noun referring to the one who loots) and deryban*team* (noun referring to a team of looters) (Chepurnyy 2015).

No one English term fully captures the meaning of deryban, but looting, asset-stripping, embezzlement or (political) corruption come closest. In Ukrainian, prikhvatis*atsiia* (literally, grabbing of state-owned resources, which is a play on the Russian word privat*atsiia*, meaning ‘privatisation’) comes closest to deryban. The difference between the two terms is that prikhvatis*atsiia* refers to the corrupt nature of a specific process – privatisation of former state assets – whereas deryban has a broader meaning, even though it also refers to the misappropriation of state resources. In the private sphere, the term reiderstvo (raiding, see 6.36 in this volume) comes closest to deryban. Reiderstvo refers to a sudden, illegal change of ownership of privately owned assets, usually by use of force. Delyosh or raspil (Russian), which mean ‘distribution, sharing, partition’, also come close in meaning to deryban, which tends to be used more often in the Ukrainian media.

Deryban is used across all sectors of the economy, but refers most frequently to corruption in the distribution of land. For example, a
Facebook group Deryban.net (‘No to deryban’) was set up, and a website with the same name, which aimed to identify cases of unlawful land distribution in Crimea (Sereda 2012). Deryban may also refer to the misappropriation of budget resources. For example, it is used to describe corruption during the state purchase of goods and services, when a government official informally privileges a supplier who charges a higher price than others. In return, the official receives personal favours or money (vidkat in Ukrainian and otkat in Russian, meaning ‘kickback’, see 6.29 in this volume). Privileged individuals may also obtain opportunities for deryban by exploiting their control of state property to serve their private interests. In an article published in mid-2015, for example, Serhiy Kuyun discussed the potential implications of the changes in management of Ukraine’s largest oil-extracting company, Ukrafta. The state owns 50 per cent plus one share, yet the company is controlled by Ihor Kolomoyskyy, one of Ukraine’s richest oligarchs and head of the Pryvat business group. Under its previous head, Ukafta accumulated substantial debts to the state. Kuyun predicts that deryban will continue under Ukrafta’s new management, since the new head has close ties to Pryvat (Kuyun 2015).

Deryban became widespread following the collapse of communism, when the post-Soviet states inherited significant resource endowments from the Soviet era yet were too weak to enforce their power. The state’s poor control over its property was the main driver that created opportunities for deryban. In many cases, indeed, the state deliberately dismantled its own control mechanisms (Ganev 2007: 47) in order to enrich certain societal actors. By this means, the state was able to buy loyalty and political support and to maintain its own power (Darden 2008).

The scale of deryban differs from case to case and different levels of government may be involved; in all instances, however, access to state resources is granted with the permission and compliance of state authorities. This exemplifies the neo-patrimonial nature of many post-Soviet states, where the boundaries between private and public interests are blurred (Van Zon 2001). In the words of Chrystia Freeland, the tragedy of the post-Soviet states was that ‘the best opportunity [for self-enrichment] was ripping off the decaying state’ (Freeland 2000: 180). Tilly (1985) famously argued that west European elites agree to certain constraints in exchange for the right to extract resources from the population. In the post-communist states, by contrast, the fact that the bulk of resources was initially located in the hands of the state made the state a target for predation by former managers of state enterprises and members of the Soviet nomenklatura; this in turn undermined the
building of efficient state institutions (Ganev 2007: 180–8). Moreover, certain individuals who in the Soviet period had been on the margins of the society, or even outside the law, had connections to state officials that they were able to use to grab state assets. The practice, which is now known as deryban, was a common way of so doing.

*Deryban* has had negative implications for the economies of the post-Soviet states since it has deprived the state of the key resources needed to maintain state capacity. *Deryban* shapes but also reflects the nature of relations between business and the political elite since it involves the distribution of public resources according to private interests at the expense of the broader public good. *Deryban* is focused on short-term gain: assets taken from the state are consumed immediately, with no regard for their potential future value. Often, therefore, assets simply disappear or are wasted. If, for example, a forest is privatised, its trees may be chopped down and the land on which it stood distributed among a number of privileged individuals, who will use it to build their ‘cottages’ (often mansions); as a result, the forest is lost as a public good. In the case of *reiderstvo*, by contrast, the expropriated assets may continue to function. For example, a factory may continue production, even though ownership has shifted illegally and by use of force (Ivan Presniakov, personal correspondence, 2015).

*Deryban* has important political and social implications. In the majority of cases, it occurs with the approval of a state bureaucrat who not only profits materially from the transaction but also gains power through patronage. As a result, *deryban* undermines state legitimacy since the population comes to view the bureaucracy and the political elite as corrupt. The social implications of *deryban* can therefore be severe. For example, a few privileged pharmaceutical suppliers in Ukraine, intent on creating opportunities for *deryban*, deliberately undermined public trust in imported vaccines. According to Ukraine’s Security Service, up to 40 per cent of the cost of medicaments purchased by the state disappeared into the pockets of these companies (*Tsentr Protidii Koruptsii* 2015).

*Deryban* is difficult to measure given its informal nature. Independent media that expose cases of corruption are the most helpful in identifying the frequency and scale of *deryban* (see Holmes 2015 for a discussion of potential ways to measure corruption).

*Deryban* could be prevented or diminished if there were political will to change the nature of business-state relations and to eradicate corruption. So far, such will has been missing in Ukraine and much of the rest of the post-Soviet space. There are, however, public initiatives aimed at eliminating *deryban*. The popular website Nashi Hroshi (‘Our Money’ [http://nashigroshi.org/] was created in 2010 to combat the abuse of
budgetary funds in the course of official tenders. The site aims to raise social awareness of the misuse of taxpayers’ money and to draw attention to specific cases of the misappropriation of funds. The website also covers cases of land deryban. For example, it speculated that the Suprun family, closely related to Ukraine’s former president Victor Yanukovych, might be the owners of 17 plots of land in Kyiv’s elite Feofaniia park (Nashi Hroshi 2015). Similarly, Ukraine’s Anticorruption Action Centre (antac.org.ua) works to expose instances of corruption and identify those involved in it. Deryban has also been offset by means of symbolic gestures, such as the erection of a monument in protest against construction in downtown Kyiv that destroyed ancient monuments.

6.5 **Fimi Media** (Croatia)
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The term *Fimi Media* emerged from a political scandal surrounding the marketing agency of the same name, FIMI-Media, which operated between 2003 and 2009. The agency was established by the Croatian
Democratic Union (HDZ) – one of the country’s two major political parties, in power 1990–2000 and 2003–2011 – with the purpose of siphoning money from ministries, state agencies and state companies. In its current use, *Fimi Media* refers to any scheming or misuse of public funds and power by political parties at the local or national level. The term has become a euphemism for the widespread political corruption and fraud involving top officials in Croatia.

High government spending, a strong collectivist culture and insufficient civic participation in Croatia provide fertile ground for the corrupt activities of incumbent politicians under the façade of economic and political reforms (Šimić Banović 2015). Such simulation is evident in the FIMI-Media court case, where numerous economic crimes, embezzlement and misuse of power were revealed. The exposure of the case also brought to light other similar schemes, in which the Head of the Croatian Chamber of Economy and the Mayor of Zagreb have been implicated among others (these cases are still under investigation).

The FIMI-Media marketing company operated under the direct patronage of Prime Minister Ivo Sanader. Sanader himself, government ministers and other heads of state institutions all gave orders to the directors of state companies to enter into business contracts with FIMI-Media. These contracts were not subject to open tenders, and thus breached provisions of the Public Procurement Act. FIMI-Media would submit invoices for fictitious consultancy services, at rates substantially higher than the market price, and the payments would be duly authorised by state leaders. FIMI-Media’s owner would then deliver the payment, in cash, to the State Secretary Mladen Barišić, who would pass it to Sanader. The proceeds were used both to fund the HDZ political party, and for the personal enrichment of the individuals involved (Vuletić 2014: 144). Sanader fled Croatia in December 2010, shortly before the Croatian parliament voted to remove his immunity from prosecution. He was arrested in Austria a day later, and extradited back to Croatia in July 2011.

The Zagreb County Court’s 2012 verdict (No. 13 K-US-8/12) in this case is quite unique, because in addition to six individuals and FIMI-Media as a legal entity, the political party HDZ was also convicted. The individuals convicted included the former Prime Minister Ivo Sanader, former State Secretary and Head of Customs Mladen Barišić, former Government spokesman Ratko Maček, HDZ’s chief accountant Branka Pavošević and the director of FIMI-Media Nevenka Jurak. The total embezzled funds amounted to over 3 million EUR (USKOK 2011).

Even though the FIMI-Media affair is considered to be a landmark case of the misuse of public power and authority in Croatia and
has gained significant domestic and international media coverage, it has been little researched in the academic literature. Nor has *Fimi Media* as a general practice been subject to academic research. However, media headlines give a sense of both the pervasiveness of *Fimi Media* as a form of political corruption at various levels, and the expansion in use of the term to refer to corruption in Croatian politics in general. The following headlines are examples from 2010–14: ‘Is Rizol Media SDP’s *Fimi Media*?’ (Soundset 2014), ‘Euromarket – *Fimi Media* of Virovitičko-Podravska County’ (Virovitica 2010), ‘Is Labin Stan Just Like *Fimi Media*?’ (Labin. info 2010), ‘Is the Company RMC Owned by Darko and Igris Smrkinić a *Fimi Media* from Zadar?’ (Voxportal 2011), ‘Perisca is SDP’s *Fimi Media*...’ (Slobodna Dalmacija, 2010), ‘Pre-Electoral Imputations or SDP’s *Fimi Media*?’ (Vidov 2013). Furthermore, *The Economist* coined the term ‘Sanaderisation’ after Ivo Sanader, and used it to describe the arrests of the top officials in the region, in particular in Montenegro in 2010 (*The Economist* 2010).

Since 2007, businesspeople in Croatia have consistently ranked corruption among the top three most problematic factors for doing business (WEF 2015). According to the most recent Global Corruption Barometer (TI 2013) 72 per cent of the general public in Croatia believe that political parties are corrupt, 70 per cent consider the judiciary to be corrupt, followed by public officials and civil servants (64 per cent) and parliament/legislature (63 per cent). However, despite the scandals, pre-election opinion polls suggest that HDZ still enjoys high levels of support among voters.

The fact that the term *Fimi Media* has entered common parlance to describe the embezzlement of public funds points to a widespread societal perception that such schemes remain active even after the FIMI-Media convictions. Shell companies and charity funds serve as a façade to collect cash at the level of the municipality, county or a nation and can usually be traced back to a certain political party, political stream or a powerful official. Such firms and schemes are aimed at constructing ‘Potemkin villages’ (see 6.30 in this volume) in order to hide the real beneficiaries and political brokers, but their existence (and the kickbacks associated with them) are an open secret in Croatian society.

Corruption, the misuse of public funds for private gain, appears to be inevitable in post-communist societies. During the transition to a free market economy, economies based on personal relations are slowly transformed into impersonal rule-based markets. Despite its formal shift from a police state to a market-supporting institution, the role of the government in transitioning post-socialist countries was rather contradictory in
the 1990s. On the one hand, in such countries ‘there is consistently more support for authoritarianism and economic intervention of government’ (Roland 2012: 165–6), something that is chiefly explained by the communist legacy and cultural inertia. On the other hand, the de facto role of the government has often been that of a ‘grabbing hand’ that feeds parasitically on weak economic institutions (Abed and Davoodi 2000), including ‘the sale by government officials of government property for personal gain’ (Shleifer and Vishny 1999: 91). The grabbing hand model relies on government officials possessing the opportunity to convert their power into income via the use of politics. In seeking powerful positions, election and re-election, politicians are motivated by their own self-interest rather than ideological goals. In any case, such motivation is substantially different from the idea of welfare maximisation (Shleifer and Vishny 1999: 2–7).

Figure 6.5.1 Cost of corruption across EU.
Source: http://macedoniaonline.eu/content/view/24588/2/.
© MINA.
In general, there is a substantial degree of (tacit) tolerance for corruption in Croatia as it is a common way of shortening procedures and solving problems (with public services in particular). Quite contrary to their responses in various corruption surveys, most ordinary people in Croatia have been involved in some corrupt act at the street level even though most of them do not consider themselves as bribe givers or bribe takers; businesspeople on the other hand possess a higher level of awareness on these issues (UNODC 2011; European Commission 2014; Ernst and Young 2015). In a recent international survey (Ernst and Young 2015: 21), Croatia took the top place for perception of the prevalence of bribery/corrupt practices in business: 92 per cent of respondents perceived them to happen widely. Thus, despite nominally criticising corruption at any level, ordinary people still rely on the omnipresent practices that work for them immediately (i.e. petty corruption) rather than time-consuming, fully legal yet uncertain, solutions. These attitudes and behaviours of ordinary citizens, combined with the extremely slow implementation of any top-down anti-corruption policies, means that Fimi Media is likely to remain a feature of Croatian politics and administration for years to come.

6.6 Tangentopoli (Italy)
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The term Tangentopoli comes from the words tangente, meaning ‘kickback’ or ‘bribe’ in Italian, and poli, from the ancient Greek word polis, meaning ‘city’ (De Mauro and Mancini 2000). It is commonly translated in English as ‘Bribesville’ (Clari and Love 1995) or ‘Kickback City’ (Bareggi 2010). The word was coined by the Italian media to describe the web of corruption that characterised the political and entrepreneurial scene in the city of Milan (Treccani Vocabolario 2015). This was revealed in February 1992 when Mario Chiesa, a member of the Italian Socialist Party (PSI), was arrested on suspicion of accepting a bribe in order to promote a business deal (Guanci 2011). The PSI disavowed Chiesa, claiming that he had been acting as a lone wolf and did not represent the party (Corriere della Sera TV 2012). Chiesa retaliated by spilling the dirt on the political system as a whole. His revelations uncovered a web of corrupt relations between political parties, business and organised crime, and provoked a judicial investigation known as Mani pulite (‘Clean hands’) (Guanci 2011). Soon it became clear that what had been going on was not an isolated event confined to Milan, but a nationwide
system of political corruption (*Treccani Enciclopedia* 2015). The term *Tangentopoli*, accordingly, came to denote a system based on tacit agreements whereby entrepreneurs paid bribes to politicians as an informal ‘tax’ to obtain public contracts, and politicians then used the money to fund their political parties (Della Porta 2015). In its broadest sense, the term became synonymous with any kind of widespread political corruption (*Treccani Vocabolario* 2015).

The term *Tangentopoli* was widely used both in the Italian media and in the international press (see bibliography). The level of coverage of corruption in the Italian media is higher than in most other European countries and encompasses national politics, the judicial system and, to a lesser extent, business (Mazzoni 2016: 3–22). An analogous practice might be *otkat* in Russia (‘kickback’, see 6.29 in this volume) whereby officials choose a supplier of goods or services for a public contract and receive remuneration from the provider in the form of a fixed sum of money or a percentage of the transaction amount. However, *Tangentopoli* differs from *otkat* in that in Italy it denotes kickbacks that are mainly used to fund political parties, whereas in Russia the money may be used however the recipient chooses.

![Image of Milan as *Tangentopoli*](image)

**Figure 6.6.1** Milan as *Tangentopoli*.
Source: ‘Si ruba ancora ma per sé stessi ecco perché Tagentopoli non è finita’ (Lit. ‘People are still stealing, but for themselves, that’s why Tagentopoli is not ended’). *La Repubblica*, 10 February 2012. Image not under copyright (permission given by *La Repubblica*).
The fact that *Tangentopoli* sees politicians asking businesspeople for bribes in return for public contracts suggests a degree of coercion that might make the practice comparable to the system of corruption practised by the mafia, where bribes are characterised by extortion of kickbacks (colloquially called *mazzette*). The main difference between the two practices, however, is that, in the case of *Tangentopoli*, it is politicians who ask for kickbacks to allow companies to win public contracts whereas, in the case of the mafia, mafia members extort money from civilians and owners of small businesses in return for protection. The behaviour of both politicians and mafia members is similar in that both are the ‘actors’ who demand kickbacks. Although it is always hard to define which direction corruption takes – who is the agent and who is the target – it might be claimed that, in some specific instances, politicians may be seen as the ‘targets’ of corruption, rather than as its instigators. This is the case in situations in which the mafia, being in control of some areas, makes financial demands to politicians in return for their votes and the extortion of votes from civilians. Indeed, the informal systems of the mafia and *Tangentopoli* may be closely associated when mafia members put pressure on politicians and convince them through extortion to assign public contracts to companies controlled by the mafia, thereby creating a three-way system of corruption that includes not only politicians and entrepreneurs, but also the mafia as an active player. An example of such interrelation is provided by *Mafia Capitale*, a criminal organisation uncovered in 2014 through which mafia exponents controlled many public works in the city of Rome by means of contacts and bribery of politicians and public officials (Micocci 2015). While this has been compared to *Tangentopoli*, it has also been seen as a new form of corruption since it directly involves organised crime (*Libero Quotidiano* 2014).

The *Tangentopoli* scandal had a significant impact on Italian politics and society. Under strong public pressure and intense investigations, many politicians confessed or resigned; some fled the country, including the leader of the PSI, Bettino Craxi, who fled to Turkey in 1995; while others, including Sergio Moroni, a Socialist Member of Parliament (MP), committed suicide while under investigation (Montanelli and Cervi 2013: ch. 14). The ‘moralisation campaign’, headed by magistrate and future politician Antonio Di Pietro, won enthusiastic public support (Pollo 1996). More broadly, the widespread public indignation provoked by the *Mani pulite* operation resulted in significant changes on the political scene. At one point, more than half of the members of parliament were under investigation, while 400 city and town councils were dissolved as a result of corruption charges (Koff and Koff 2000: 2). Political parties including Christian
Democracy, the PSI and the Communist Party, which had dominated the political scene for decades, lost public confidence and were eventually dissolved. By contrast, populist parties that pursued anti-corruption campaigns, such as the Northern League, won increased public support (Montanelli and Cervi 2013: ch. 15). The scandal led to a radical restructuring of the ‘First Republic’, that is, the political system that had operated in Italy since the end of the Second World War, and its replacement by a reformed electoral system that came informally to be known as the Second Italian Republic (Koff and Koff 2000: 1–3, 31). The scandal also had important economic implications, provoking a sharp fall both in the value of the Italian currency and in international confidence in the country’s reliability as a haven for investment (Barbacetto et al. 2002: 32–3).

In popular perception, Tangentopoli left a strong mark on Italian culture and was depicted in literature, theatre and cinema productions (see Bibliography). Tangentopoli became the Italian variant of the game Monopoly (Corriere della Sera 1992). Music played a particularly important role in spreading opinions and criticism. Anti-politics became a popular theme of many Italian songs, which in their lyrics depicted the negative elements related to Italian political life such as the unlimited power and corruption exercised by political parties. Singers who denounced the system included Franco Battiato in his song ‘Poor Italy’ (‘Povera Italia’), Pierangelo Bertoli in ‘Golden Italy’ (‘L’Italia d’oro’), Antonello Venditti in ‘Everybody to Hell’ (‘Tutti all’inferno’), Edoardo Bennato in ‘Who Are You?’ (‘Tu chi sei?’) and Giorgio Gaber in ‘Right–Left’ (‘Destra–Sinistra’).

**Intermediation (partial compliance with the rules by creating invisibility)**

6.7 **Brokerage** (general)
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In general, brokerage involves the flow of valued resources from one actor to another via an intermediary (Gould and Fernandez 1989; Stovel and Shaw 2012). Any brokered relation requires at least three actors: a ‘giver’ and a ‘receiver’ who are the parties of the transaction, and the broker serves as the connection between them. Brokerage is central to informal transactions in particular (Jancsics 2015). In many countries informal arrangements provide a low-cost and low-risk infrastructure for a whole range of activities, from everyday informal practices such as helping
friends to build their house in a village to bribing public administrators. Under communism in Central and Eastern Europe, informal social networks served as a survival tool and means of ‘getting things done’ under the strict, over-centralised socialist bureaucratic system (Ledeneva 1998; Hankiss 2002: 248; Lomnitz and Sheinbaum 2004; Heinzen 2007). Following the collapse of old communist regimes in the 1990s, the capitalist market economies that emerged in the region brought new uncertainties, emerging inequality and high levels of unemployment. Accordingly, the use of informal networks has survived, adapted and even proliferated under post-communism (Sík and Wellman 1999). Although mutual favours, once widespread in the socialist economy, have been partially replaced by monetary-based informal exchanges (Ledeneva 1998), brokers still play an important role in these multi-player transactions in many countries (Szántó et al. 2013).

Brokerage practices can be categorised according to the form of the exchange (market vs. reciprocal) and according to the mechanisms through which the broker manages the transaction (catalyst vs. middleman) (Jancsics 2015). Generally, in any market-type exchange, the exchanged resource is mainly cash and the players are not socially close, resulting in a precise balance and an equivalent return without delay between the players (Sahlins 1965; Gregory, 1982: 42). By contrast, in a reciprocal exchange the actor who gives something expects to get something of value in return, but what exactly and when is not spelled out (Sahlins 1965: 147). In the case of catalyst brokerage, the broker connects the client with the agent by introducing them to each other, but then steps aside (Stovel et al. 2011). In contrast, middleman brokers control the transaction throughout and remain the only link between the otherwise unconnected actors. These two variables – the form of informal exchange and the brokerage mechanism – give rise to four different types of brokerage: (1) representative brokerage, (2) entrepreneur brokerage, (3) gatekeeper brokerage and (4) multiple insider brokerage.

Representative brokerage is probably the most widespread form of informal brokerage. Here a social group ‘delegates’ one of its members to establish contact (weak ties) with outsiders and communicate or negotiate with them or obtain resources, often from formal organisational settings (Gould and Fernandez 1989; Granovetter 1973). A range of culturally specific forms of representative brokerage are described in the entries in this Encyclopaedia: wasta (Arabic speaking countries), tapş (Azerbaijan), torpîl (Turkey), ‘pulling strings’ (UK), raccomandazione (Italy), stróman (Hungary). Here the middlemen are usually catalyst brokers who are willing to share a contact with their fellows and thus
establish a new relationship. Since they ‘just help’ their group members – relatives, friends, acquaintances, neighbours, ex-classmates or colleagues – they are not interested in controlling the transaction and holding back or manipulating information between the parties. This is a reciprocal exchange between the broker and his/her group member where the broker creates a gift-debt, a reciprocal dependence, which, eventually, should be returned (Gregory 1982: 42; Graycar and Jancsics 2016). Here the counter transfer may take the form of another favour, or simply the broker’s enhanced status and loyalty within his close-knit group.

An *entrepreneur broker* is a neutral middleman who benefits from the situation by controlling the flow of resources and information between actors who do not know each other (Boissevain 1968; Marsden 1982: 206; Gould and Fernandez 1989; Burt 1992). An entrepreneur broker, for example, can help acquire counterfeit documents such as fake passports, driving licences, high-school diplomas, etc., which may even be officially registered. Such diplomas are in demand on the black market since they are often required by employers for particular jobs (Jancsics 2015). This is a form of middleman brokerage where the broker does not let the two parties directly meet with each other; he/she extracts commission (typically cash) from the market-type exchange.

In *gatekeeper brokerage* the broker and the agent are members of the same social group (Gould and Fernandez 1989) – or in many cases, the same organisation or political institution – while the client is an outsider. The political practice of ‘cash for access’ in the UK is an example of gatekeeper brokerage (see 2.18, Volume 1). Here, individuals give monetary payment to the broker (who may be a party official, Member of Parliament (MP) or parliamentary aide) who in exchange secures a meeting with an office holder – often a senior minister or Cabinet member. On the broker-client side this is a market-type exchange (as indicated by the name ‘cash for access’); however, there is a possible reciprocal exchange on the broker-agent side where fellow members of the same formal institution can share the profit of the deal or repay each other with favours. For example, in one form of ‘cash for access’ the money paid by the client is given to the political party of which the agent is a member, which helps to fund the political resources that guarantee the agent’s career.

*Multiple insider brokers* are people who are simultaneously members of different groups (i.e. they have multiple formal organisational or social group memberships). This brokerage type often results in a strained relationship, because both groups are suspicious that their group member (the broker) may serve the other group’s interest (Simmel 1950: 142; Vedres and Stark 2010; Stovel et al. 2011). For example, in
Germany ‘external persons’ (*externe Personen*, see 6.17 in this volume) are individuals who maintain an external employment relationship in the non-state sector while working temporarily in the federal administration. These brokers serve ‘two masters’ at the same time and thus often have conflicts of interests. *Externe Personen* may influence laws affecting their private sector ‘home’ organisation or leak confidential government documents to them. Insider traders provide another example of multiple insider brokerage (see 6.16 in this volume). These brokers gain access to exclusive information about financial markets and provide tips to friends or relatives who can take advantage of it.

Brokered informal transactions are complex social phenomena. Brokers make informal (and sometimes illegal) deals possible across formal organisational boundaries and facilitate the ‘smuggling out’ of organisational resources through such boundaries. In this respect, informal brokerage may be seen as socially undesirable. On the other hand, brokerage is also a means of establishing or maintaining personal relationships and reproducing socio-cultural systems inside and outside of formal organisational structures.

6.8 *Wāsta* (Middle East, North Africa)
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*Wāsta* is an Arabic term that, in its day-to-day usage, refers to the deployment of intermediation on behalf of an individual or a group to secure some benefit that would be otherwise unobtainable or too burdensome (Makhoul and Harrison 2004: 25–7). The term is derived from the three letter root *wāw/sīn/tā*, a consonant pattern that forms the basis of words, both nouns and verbs, relating to ‘middle’. Accordingly, this configuration serves as the root of a number of expressions ranging from ‘to place, put, or set in the middle’ to ‘medial, median, intermediate’ (Wehr 1994: 1250–1). It is within this semantic variation that *wāsta* is defined as an ‘act of mediation/intercession’ (Cunningham and Sarayrah 1994: 29), ‘mediator, mediatress, intermediary’, or a ‘personal connection (of someone, used to gain something)’ (Wehr 1994: 1251).

The scope of *wāsta* spans across the Arabic-speaking countries of the Persian Gulf, the Levant and North Africa, alongside the occurrence of a somewhat similar colloquial phrase, *coup de piston* or simply *piston*, found in Morocco, Algeria and Tunisia (Branine 2011: 454). Familiarity with *wāsta* is not limited solely to native Arabic speakers in the indicated areas. Everyone living and working in these regions is often intimately
accustomed with the advantages and hindrances of *waṣṭa* (Shah et al. 1996: 326) – a fact that underscores its pervasiveness in many Arab states.

In its least contentious guise, *waṣṭa* is called upon to negotiate or resolve disputes between parties without resorting to formal legal procedures. The underlying logic in such cases is that, ‘intervention for conflict management is always recommended … [and] the intermediary is always to be preferred to the self as an effective pleader’ (Antoun 2000: 460). Ideally, one or more mediators are to act as even-handed conciliators who are agreeable to the antagonists. Moreover, engaging *waṣṭa* is intended not only to resolve the discord itself, but also to redress the social disruptions that the friction had caused (Ayoub 1966: 109–10). The desired outcomes of *waṣṭa* arbitration are compromise, reconciliation and the restoration of relationships, rather than clear assignment of blame or one-sided punishments (Antoun 2000: 448–50).

More commonly, though, *waṣṭa* is associated with the informal trading of favours between persons or groups. These exchanges can be precipitated by various needs, but common examples include helping someone to get state permits for a business, enrolling a child in a

![Figure 6.8.1](image-url)  
*Figure 6.8.1* Outside an administrator’s office, *waṣṭa* is seen here opening the door for an underqualified applicant while denying entry to the candidate with excellent credentials.  
Source: Author. © Amro Atef Nasr Al Sharqawi.
prestigious school, finding employment, postponing legal action, etc. (Huxley 1978: 36). The deployment of wāsta in such cases involves chains of interpersonal ties being activated until a liaison who can potentially provide satisfaction is located within the networks of family, friends, colleagues, coworkers or the ubiquitous ‘friends of friends’ (Boissevain 1974: 24–5).

Unlike prototypical patron–client dealings, however, wāsta is not normally viewed as a hierarchical transaction; instead, procuring and using wāsta is part and parcel of the obligations that underwrite existing, or coveted, social bonds. In other words, much like similar occurrences in other geographic and cultural settings, wāsta support is infused with sentiments that are in line with the notion that it is ‘not a relationship for the sake of exchange but an exchange for the sake of a relationship’ (Ledeneva 2000: 184). For this reason, wāsta favours tend to circulate within the economies of ‘good faith’ that come with social closeness and familial trust (Bourdieu 1990: 114–15, 119). Consequently, when wāsta is extended, it is usually without deadlines for compensation or explicit requisites. Nonetheless, it should be recognised that there are those who are adept at manipulating this entire wāsta framework for their own agendas: politicians swapping bureaucratic largesse for votes, businessmen bartering parliamentary backing for contracts, or local elites dispensing aid to augment the retinues and bolster their individual reputations (Redman 2014: 127–31).

Not surprisingly, wāsta has attracted the attention of critics, local journalists and scholars who are quick to note that it carries many of the same connotations as nepotism, dependency and corruption (Kilani and Sakijha 2002: 19). From headlines in Kuwait City declaring that ‘“Wasta” frees law-breakers’ (Arab Times 2009: 6) to World Bank researchers isolating wāsta as an accessory to the Middle East’s ‘meritocracy deficit’ in employment (Gatti et al. 2013: 189–94), it is clear that the prevalence of wāsta practices is well known from the local community all the way up to international levels. On the one hand, it is true that wāsta can facilitate the necessary inroads required to press legitimate claims, such as those that are put before what are often overstuffed and opaque state bureaucracies (Hertog 2010: 282–3). Yet on the other hand, it is just as accurate to pinpoint wāsta as a mechanism by which those with insufficient credentials can outflank more qualified competitors, like with landing a job or winning a promotion (see Figure 6.8.1). Still, whether wāsta is used for so-called benevolent purposes (Kilani and Sakijha 2002: 25), such as navigating impenetrable government red tape, or utilised for more questionable motives, what is unmistakable is the power of wāsta brokerage.
to disproportionately improve the probabilities of a better outcome in a multitude of arenas.

6.9 **Dalali** (India)
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The Hindi/Urdu word ‘dalal’ can be literally translated as ‘commission agent’, ‘broker’, ‘fixer’ or ‘mediator’, and tends to carry negative associations due to the fact that dalals take fees and commissions and produce nothing themselves. Stock exchange brokers, ticket touts, pimps, match-makers, real estate brokers, and the large number of people who unofficially mediate between ordinary citizens and the state are all occasionally referred to as dalals, and their occupation as dalali (fixing/brokerage).

A vast assemblage of fixers surround the formal Indian state and claim to facilitate people’s access to it and its resources. Because they can be both helpful and exploitative, Indians frequently regard them as morally ambivalent characters. To emphasise their role as facilitators, some fixers describe their work as ‘social work’ or ‘seva’ in Hindi, as pyravee in Urdu (Ram Reddy and Haragopal 1985), or even simply as politics (rajniti). They rarely, if ever, describe themselves as dalals, or to their work as dalali, but their clients do so when they wish to emphasise how either they or their practices are exploitative and corrupt.

Fixers who mediate relations between citizens and the state can be found throughout the world in places where institutional channels necessary to gain access to state resources are weak. Fixers arise where institutionalised party structures are absent, and where citizens face difficulties gaining access to the state, either because decision-making centres are inaccessible and/or because of the lack of clear bureaucratic procedures necessary to gain access to state documents and entitlements. In low-income neighbourhoods in Argentina, they are referred to as ‘punteros’ or ‘referentes’, and in similar neighbourhoods in Mexico as ‘padrino politico’ or ‘cacique’ (Auyero 1999: 302). During the earlier part of the twentieth century in Chicago, they were referred to as ‘party precincts’ and played an important role in ‘machine politics’ (Auyero 1999: 302). However, one thing that is arguably distinctive about Indian fixers is their sheer number in proportion to the population. Thus James Manor claims ‘they are a major national resource which India possesses in greater abundance than just about any other less developed country’ (Manor 2000: 817).

Scholars have attributed their large numbers to deepening party competition since the 1970s and to the concomitant expansion in the
number of services that the Indian state provides, as well as to the decline in caste-based power structures. Broadly, increased electoral competition has pushed competing parties to implement a growing number of schemes and services. The state’s limited capacity to implement these has fuelled both the demand for and the supply of fixers (Berenschot 2010). The erosion of caste-based power structures has likewise fuelled the emergence of a large number of lower caste fixers. In Uttar Pradesh such fixers are known as ‘new politicians’ (naya netas) (Jeffrey et al. 2008), and they have partially overtaken the mediating functions once monopolised by members of the upper castes.

Among many other things, fixers help people gain access to credit, development schemes, electricity and water connections, caste certificates, land records, government jobs and even to gain access to the police when they are involved in a dispute. Fixers are a common feature of Indian villages and poorer urban neighbourhoods. While they may sometimes provide valued services, people have no way of determining the legitimacy of the fees they charge, and of the commissions that they take. An illustration of this can be found in the case of fixers who offered people jobs in the state-owned Bhilai steel plant in exchange for a payment of between 30,000 and 50,000 Rupees (Parry 2000). The fixers claimed that much of this money was to pay officials in charge of recruitment. However, Parry reports that it was in fact far from clear that officials were indeed taking money in exchange for jobs. It transpired that in many cases the fixers had managed to secure access to the shortlist of selected candidates, and had then offered jobs to those already being considered. If the candidates got the job, the fixers would take the credit for it, and if they didn’t, they would simply return some of the money (preferably as little as they could get away with).

Fixers essentially need people to believe that government officials are corrupt and that they take bribes in exchange for jobs, or services. They encourage this belief because otherwise people would think it futile to try to use them to bribe government officials. Thus it can be argued that fixers play a crucial role in magnifying the extent to which the Indian state is perceived as corrupt (Oldenburg 1987; Parry 2000) and as a consequence, the Indian state is sapped of legitimacy. In turn, this notion feeds neoliberal agendas, which favour downsizing the state as the best way to reduce corruption (Parry 2000).

While it is undoubtedly true that fixers greatly contribute to the perception that the Indian state is corrupt, there is nevertheless a body of literature attesting to the real and systematic nature of corruption in India. Officials in various departments – including public works,
irrigation and police departments – need to take bribes to pay senior officials and politicians in order to secure promotions and desirable postings (Wade 1985). Officials may prefer to take these bribes through intermediaries in order to avoid being seen taking them. Citizens themselves may also prefer to approach officials through brokers because they don’t know the procedures necessary to pay a bribe, and because they lack the contacts necessary to approach the particular official they wish to deal with.

Where fixers do indeed collude with government officials – rather than merely claim to do so – they form an integral part of unofficial power structures that subvert state functions and drain the state of resources. They may, for example, subvert state functions by helping their clients obtain jobs they do not merit, or subsidies they are not entitled to. Moreover they may contribute to the depletion of state resources by taking a cut of funds destined for the construction of roads or maintaining irrigation canals (Wade 1985). Harriss-White (2003) suggests that the informal assemblage of agents that includes fixers, advisors, political workers, crooks and contractors and formal state agents acting in an informal capacity constitute a ‘shadow state’ that deprives the poor majority of its fair share of government resources. The presence of this vast shadow state goes a long way towards explaining the fact that in 1989 Rajiv Gandhi estimated that only 15 per cent of state subsidies ever reached their intended beneficiaries.

The Indian government has in recent years sought to curb corruption and fixing through the introduction of electronic technologies that simplify bureaucratic procedures. Citizens can now, for example, access their land records within minutes and for a fixed fee without the need to bribe officers (either directly or through fixers). However, simple surveys, questionnaires and ethnographic research all reveal the extent to which citizens continue to gain access to a number of state services through fixers. On the other hand, to determine the extent to which fixers do in fact collude with corrupt state officials is more difficult, but can be researched through ethnographic methods by spending time with bureaucrats in government offices.

6.10 Torpil (Turkey)
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Torpil is a widespread informal practice in Turkey that revolves around finding private solutions to the problems faced when dealing with
bureaucracy. Torpil relations are formed in order to obtain benefits in a number of situations such as finding jobs for oneself or one’s relatives, avoiding queues in hospitals and even obtaining free health care. Achieving an objective by means of torpil is common, however, to date there is a lack of systematic work that interprets how ordinary people make use of this practice in their daily lives.

There is little information on the origins of torpil exchanges. According to the most authoritative Turkish dictionary published by the Turkish Language Institute, one of the definitions of torpil is ‘favouring someone over others’ (kayırmacılık or iltimas). The term kayırmacılık derives from Arabic and originally means holding someone’s hand or the lower part of someone’s caftan, and asking for a favour or petitioning to obtain benefit.

In contemporary Turkey both torpil and kayırmacılık are widely used in the context of employment. Hiring and promotion decisions are commonly influenced by torpil networks. For example, state universities are required to announce vacancies through the state press agency Basin Ilan Kurumu. These announcements specify the ranks and the number of positions to be filled. In one reported case, a university uploaded a draft version of the required listing announcement for vacant positions that accidentally included the names of the academicians the university intended to hire (Ozgenc and Gokce 2013). In another well-documented example, it was found that 85 close relatives of government ministers were appointed to senior posts in various ministries without being required to undergo competitive state examinations (Cumhuriyet.com.tr 2015). These revelations caused little comment or public discontent because most Turkish people are accustomed to the practice of torpil influencing their daily lives. The importance of knowing influential people in Turkey’s capital is further confirmed by common sayings, such as ‘do you have an uncle in Ankara?’ For example, in a popular Turkish song ‘Mamudo’, about the loneliness and desperation of a nephew who has no support in life, the poet and folk singer Asik Mahzuni Serif reminds him of the hopelessness of his situation with the words: ‘you do not have an uncle in Ankara Mamudo, why did you come to this world?’

Torpil also implies influence and protection. The expression ‘the holder of this business/calling card is my acquaintance’ (‘Kart Hamili Yakınumdur’) is commonly used to suggest protection. In particular, before mobile phones were in common usage, business leaders and Members of Parliament would give their contacts business cards printed with the above-mentioned words and their signatures on the reverse side. This enabled the cardholders to obtain benefits by showing the signed cards
during business transactions. In this way, the cardholders were able to obtain a range of benefits including price reductions, loans from banks and preferential treatment in job applications. This practice predated the practice of writing the name of a protector on examination papers. One respondent interviewed by the author took banking exams in the 1960s. As part of the recruitment process, the candidates were required to declare the names of the senior members of the bank with whom they were closely associated. The respondent’s relative was the Chief Inspector of the Bank and unsurprisingly, she got the job.

The intervention of powerful people helps facilitate desired outcomes. The close link between torpil and intervention makes this practice very similar to wāṣṭa, a practice widely employed in Arab societies (see wāṣṭa, 6.8 in this volume). Literally, it means the middle and refers to bringing parties to ‘middle point or [a] compromise’ (Al-Rahimi 2008: 37). This practice dates back to tribal times and was used as a prevention mechanism against inter-personal and inter-tribal conflicts (Cunningham and Sarayrah 1993). In Jordan, for example, this practice is still a part of the legal system and is designed to bring peaceful solution to conflict. There is, however, a second form of wāṣṭa known as intercessory wāṣṭa, which has become more pervasive in the Arab world. It is defined as ‘the intervention of a patron in favour of a client to obtain benefits and/or resources from a third party’ (Mohammed and Hamdy 2008: 1). In most situations there is more than one benefactor and therefore the strongest among them achieves the desired outcome for the person on behalf of whom he intervenes.

The use of torpil is widely criticised in Turkish society and the initial attitudes of respondents interviewed by the author confirmed this negative connotation. However, in spite of this, it became apparent that most respondents solved their problems efficiently and helped others through torpil networks. Some respondents, who initially were highly critical of torpil, changed their attitude towards it after realising that their life stories revealed their use of personal ties to obtain services or help relatives in need. Alena Ledeneva refers to this anomaly as ‘misrecognition’ in her study on the use of blat ties in Russia, and cites it as the reason for ‘its pervasiveness, on the one hand, and the lack of attention to it, on the other’ (Ledeneva 1998: 59). Some respondents misrecognised torpil in such a way as to deny their involvement in the very practices in which they took part. They viewed their own torpil relations positively while being critical of the practice when describing the relationships of others. This response to torpil can be identified as ‘misrecognition as a system of denial’ (Ledeneva 1998: 60).
The inefficiency of institutions is one of the main justifications Turkish citizens give for their adoption of torpil. Thus, the use of torpil is seen as a compensation for defects. Where the involvement of torpil networks is not denied, it is not uncommon among citizens to blame others. The ‘rules of the game’ make people believe that torpil serves the interests of its seekers. It should be noted that the practice of torpil contradicts Islamic religious principles related to fair treatment and hence, religious-minded people consider torpil a great sin, known as ‘kul hakkı yemek’, the violation of the equal rights granted by Allah to all humans.

6.11 Gestión (Mexico)
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Gestión (noun; plural: gestiones; verb: gestionar) can be translated as management, but is used informally in Mexico to refer to negotiations for, or the processing of, public goods or services in a private manner. A citizen or group of citizens negotiates with a politician or official to use their resources, knowledge or influence to help them access public resources or programmes rather than having to undergo lengthy formal processes with uncertain outcomes. This is done on the understanding that the citizen(s) will then be indebted to the agent.

The word gestión comes from the Latin gerere, meaning to manage or conduct. It translates as relating to management and administration, usually in business, but may also be used in the context of politics. Sometimes defined as paperwork or red tape, the term is generally associated with business and political administration. Trámite (noun) or tramitar (verb) as the primary synonym means to process or to negotiate. The colloquial meaning of gestión cannot be found in a dictionary and rarely appears even in specialised publications. While gestión is found in Mexican media, English-language academic and mediatric treatments of the topic usually use the synonym clientelism. The compound ‘clientelistic management’ – gestión clientelista – is used in academic and media sources across the Spanish-speaking world, but in Mexico, the informal meaning of gestión (as discussed below) is common.

Gestión is, indeed, akin to clientelism and many other personal exchanges involving public resources. There are, however, important differences. Gestión refers to any instance in which someone tries to negotiate access to public resources, while clientelism is often understood as a long-term relationship involving a number of favours between a patron and a client (Auyero 1999). Similarities are found to vote-buying
(a one-time exchange of goods or money for the vote) and patronage (public sector job appointments in exchange for loyalty). These kinds of informal interactions exist worldwide, but with local variations in the vocabulary used, the norms governing the interactions and the degree of social acceptability. Similar phenomena are found in Russian blat, Chinese guanxi and Middle Eastern wasta (see 1.1, 1.12 Volume 1 and 6.8 in this volume). Mexicans use the term gestión to describe their day-to-day interactions with the state. Informal settlements may be required for a variety of needs. Examples found include roads needing to be paved or water to be supplied; peasant organisations seeking land rights; taxi drivers needing licences; public employees requiring pensions, and entrepreneurs requesting permits: all involve negotiating (gestionar) to obtain a result.

While the gestión permeates politics, in particular its use provides resolution for societal tensions experienced by the lower classes. Mexico’s wealthy are a hermetic elite, economic opportunities are scarce, and since the start of the economic restructuring and austerity of the 1980s, social mobility has moved as frequently downwards as upwards (Shefner 2008). Resource redistribution is inadequate. Policies and programmes to improve access to decent nutrition, housing, health care and education are underfunded. It is particularly difficult for the poor – officially 46.2 per cent of the population (CONEVAL 2014) – to meet their needs.

The poor know from experience that bureaucrats will be unresponsive to their demands and are uncertain regarding their position vis-à-vis the state; therefore they try to create certainty through personal appeals. Instead of struggling with the red tape of bureaucratic procedure and accepting interminable delays, they seek a person in a position of power with whom they can negotiate directly. For example, in one case a woman, who lived in a small self-built cinderblock house on an empty lot next to a low-rent apartment building in Mexico City, petitioned her municipality in vain for the installation of a street light in the alley connecting the property to the road (author interview 2004). When nothing happened she asked a local politician to negotiate (gestionar) for her. Shortly thereafter, lighting was installed. The woman reciprocated by becoming the leader of a committee, formed to convince her neighbours to be represented by the same politician in a politically lucrative bid involving the demolition of their homes as part of a plan to construct a new housing complex.

Although gestión meets immediate needs, it has negative consequences. Gestiones undermine transparency, merit and equality. Citizens and officials evade formal rules for access to the state and its resources,
decisions are made to benefit those from whom an obligation appears the most advantageous and there is no control over where and how resources are allocated. Democracy is perverted as the ability of citizens to hold elected and appointed officials accountable is countered by the capacity of officials to force citizens to support them (Stokes 2005). In addition, gestiones are exchanges that require the poor to show solidarity with elites, rather than with other citizens facing similar political and economic problems. Citizens put aside their ideological convictions to negotiate with officials whose political views they find objectionable, but whose intercession is necessary to satisfy an immediate goal. Holland and Palmer-Rubin (2012) report that peasant organisations, critical of the state and desirous of an alternative political order, are nevertheless forced to negotiate with the state in order to retain benefits. The only way to maintain mobilisation is through direct benefits such as government subsidies. The same is true for urban organisations, which may have anti-system goals, but nevertheless find that they have to negotiate with officials to provide their members with the means for survival, which in turn allows the longer-term struggle for justice to continue (Shefner 2008). An unfortunate result of these processes is that horizontal networks and shared aims among citizens facing problems of inequality and marginalisation are undermined because of competition between them for access to officials (Montambeault 2015). The possibilities for social mobilisation are reduced and non-egalitarian systems remain stable.

Because of the adverse effects of gestión, educated individuals, as well as savvy politicians and community leaders, disapprove of the word and the activities it denotes. Intellectuals and elites would prefer that the state and its agencies functioned on the basis of formal, transparent rules. Politicians and social leaders competing for votes at a local level are aware that the gestión is objectionable and not only avoid using the term, but may also go to great lengths in interviews to make clear that they shun the practice. Observation of their interactions with citizens, however, reveals that gestiones are central to politics. Measuring the incidence of the phenomenon is thus difficult.

Individuals who are easily accessible for interviews and surveys – the middle and upper classes – may be highly critical of such exchanges, but unwilling to offer honest responses regarding their own behaviour as they are reluctant to appear in a negative light. People like those whose case is described above regularly resort to gestiones, but are typically more difficult to access. They may be distrustful of interviewers, and may be loath to discuss the source of their resources for fear of losing
privileges. Consequently, much available research on *gestiones* (and clientelism more generally) is based on ethnographic interviews and participant observation in particular locations. Researchers wanting to gather broader, survey-based data, try to avoid the sensitive elements of the issue by posing questions that do not target the respondent as an active participant in the behaviour. Respondents might be asked whether they have been offered something in return for their vote (AmericasBarometer 2011) or how corrupt they perceive various political institutions and state agencies to be (Universidad del Valle de México 2014). The results of such questions provide little certainty regarding the extent of public goods distribution that occurs through *gestiones*. Nevertheless, the initiated hypothesise that little happens without a *gestión* in Mexican public services, particularly when the poor are involved (see Álvarez Prieto 2015).

6.12 **Pulling strings** (UK/USA)
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‘Pulling strings’ is a procedure for achieving a goal through the use of a more powerful intermediary. The phrase is most frequently used in relation to obtaining employment, or access to privileged treatment in ways that circumvent official or established bureaucratic procedures. Because of the prevalence of gender-based power relations, ‘pulling strings’ is often referred to as using the ‘old boys’ network’ (see 3.13 Volume 1). The implicit assumption behind the latter phrase is that powerful men will have established friendly relations with one another either during their education in British public schools (that is to say, expensive private schools), or at high-status universities such as Oxford or Cambridge. When they achieve positions of power later in life, they are likely to be able to accommodate favours requested of them by their peers on behalf of some more junior person.

A related but subtly different concept is that of ‘pulling the strings’, that is, with the inclusion of the definite article. While ‘pulling strings’ is an informal practice in which the ‘pulling’ is initiated or requested from below, ‘pulling the strings’ is a factual statement about who really holds power or is in control. To ask, ‘Who pulls the strings?’ is akin to asking, ‘Who is really in control?’ For example, in 2012 the Northern Ireland branch of the environmental group Friends of the Earth launched a campaign called ‘Who Pulls the Strings?’, calling for donations to political parties in Northern Ireland to be made public (Friends of the Earth...
Northern Ireland (2012). The logic was that when large, private donations were made to political parties by business interests, those interests thereby gained some form of hidden political power, and were thus ‘pulling the strings’.

The Oxford English Dictionary (OED) (Little et al. 1933/1973) provides two definitions of ‘pulling the strings’: ‘to control the state of affairs’, and ‘to be the concealed operator in what is ostensibly controlled by another’. The OED suggests that the phrase derives from marionette theatres such as Punch and Judy shows, where the puppets are controlled by strings operated by a hidden puppeteer. The American Heritage Dictionary of Idioms (1997/2003) cites the following examples of usage of the term ‘pulling strings’: ‘By pulling strings he got us house seats to the opening’, and ‘His father pulled some wires and got him out of jail’, sourcing both from the nineteenth century.

Pulling strings is widely disparaged in contemporary Britain, being seen as more characteristic of times gone by, and not in accordance with strongly felt norms about equality of opportunity and fairness (Fox 2004). It continues nonetheless to be a widespread phenomenon. For instance, during the economic recession that began in 2008, many UK university graduates found that the only way to obtain employment was first to take a temporary unpaid internship with an organisation (Baker 2003). Achieving an internship in an attractive organisation can rest upon using opportunities for pulling strings. As one 17-year-old put it: ‘If parents have a business, then they take on their child or their child’s friends. It is really hard because you might have the enthusiasm and the qualifications for it, but if someone else is related to them or knows them, they will have the upper hand on you’ (cited in Baker 2003).

Two studies of attitudes towards pulling strings and related concepts in other countries reveal interesting findings. The first study (Smith, Huang et al. 2012) sampled students from four countries – the UK, China, Brazil and Lebanon – while the second (Smith, Torres et al. 2012) sampled business managers from the UK, Singapore, Brazil, Saudi Arabia and Russia. In both studies, respondents were asked to react to a series of brief imaginary scenarios that represented processes of informal influence. One of the scenarios used in the study with students was as follows:

John is a student who has a job in a restaurant four evenings a week. His friend David is short of money and needs a job too. He
has not worked in a restaurant before. Even though there are other candidates with more experience, David asks John to convince the owner of the restaurant that it would be best if he would take on his friend as extra cover for the times when the restaurant is very busy at the weekend.

One of the scenarios used in the business-manager study was as follows:

Dan’s father went to the same school as Ashley, who is now the chief executive of the local hospital. Dan needs to get some work experience before applying for an MBA programme. Dan’s father asked Ashley to hire him in a junior position for a year and Ashley was able to arrange this.

The scenarios were drawn from all the countries represented in the studies, but their specific origins were concealed from respondents, through translation into relevant languages and substitution of locally typical character names. In the first study, British respondents viewed 12 scenarios, of which only 3 were instances of pulling strings (the other 9 were instances of similar practices in the other 3 countries). They were asked to rate how representative each scenario was of pulling strings, how typical it was of what happens in the UK, and how much they liked this kind of behaviour. It was found that the British scenarios that involved pulling strings were rated by British respondents as more representative of pulling strings than were the scenarios exemplifying Brazilian jeitinho, Chinese guanxi and Middle Eastern wästa (see 1.2, 1.12 Volume 1 and 6.8 in this volume), which they also rated. In addition, British respondents saw the ‘pulling strings’ scenarios as typical of what happens in the UK, but the respondents from Lebanon, China and Brazil actually rated them as even more typical of what happens in their countries. The results of the second study were similar, with pulling strings being seen as most typical by the Russian respondents.

Thus it appears that, while pulling strings is a recognisably British phenomenon, as a broad type of informal practice it is far from unique to the UK. Respondents from all the sampled countries rated all the informal influence processes portrayed in the scenarios negatively, but the ‘pulling strings’ scenarios were rated less negatively than the scenarios exemplifying guanxi, wästa, jeitinho and Russian svyazi. This may however have been because the ‘pulling strings’ scenarios exemplified less extreme forms of influence than those drawn from the other countries.
Kombinacja is a colloquial Polish term used to describe the process of manipulating legal, political or cultural rules in order to access a resource. Food, commodities, labour, information and power can all be accessed via kombinacja. An individual, group, institution or state can exercise kombinacja and thus be called a kombinator, but the practice is most often transferred from one generation to the next among poor, marginalised families (Mazurek 2012: 306). Kusiak argues that historically, the practice has been seen in a positive light, as a survival tool in the face of oppressive regimes (2012: 296–7):

[Kombinacja] has been considered a skill which one should be proud of, as it allows the underprivileged to access otherwise inaccessible resources and trick the oppressor. It was the exceptional ability to kombinować that helped the majority of Poles to survive the Nazi occupation, the socialist shortages, and the shock of post-1989 inflation.

Kombinacja reflects Poles’ low levels of confidence in formal economic and political institutions. ‘Getting around the system’ is seen as a more effective survival strategy for both the family unit and nation. The etymological roots of the word kombinacja likely originate from the Latin sociare (to combine) – the origin of the word ‘socialism’ (Bevir 2011: 14). ‘Combinations’ were an early form of trade union in Europe during the Industrial Revolution. Witnessing the industrialisation of partitioned Poland at the turn of the twentieth century, the Young Poland literary movement picked up on the term to critique Poles’ initiation into the ‘cycle’ of kombinacja (labour struggle). In Promised Land (1899), Władysław Reymont wrote: ‘Think, what is this strange kombinacya [sic.] that is unfolding today in the world: the human enslaved nature’s forces, discovered masses of strength – and went into his own shackles exactly into his own forces’ (Reymont 1899: 345). To counter this oppression, the Polish worker, ‘wandered around Łódź for entire days, submerged only in kombinacyas that sought to harm the manufacturer’ (Reymont 1899: 355).

In the 1920s, Soviet literature reframed the kombinator as a bourgeois capitalist. The ‘Grand Schemer’ (‘Velikii Kombinator’) Ostap Bender
was the antihero of Ilia Ilf and Evgenii Petrov’s seminal novel *The Twelve Chairs* (1928/2011). Ostap, whose dream was to become a millionaire and move to Rio de Janeiro, ‘effortlessly squeezes information out of people, slips in and out of roles, and penetrates through situations’ (Pesmen 2000: 204). He was a chameleon who played by his own rules in a collectivist landscape that attempted to assign class and economic function to each citizen. His transformations and ability to artistically manipulate language and political discourse made him an ‘economic wrecker’ of the Soviet command economy. Yet ironically, this form of kombinacja became ‘the prerequisite for understanding Soviet life’, because the command economy itself suffered from shortages, corruption and red tape, and individuals had to find innovative strategies in order to access basic resources (Pesmen 2000: 204).

*Kombinacja* as the everyday man’s strategy for basic survival became widespread during the Second World War. Polish peasants who were forced to meet agricultural quotas for the General Government under Nazi occupation found ways to sell their yields on the black market. Polish doctors in Warsaw acquired Red Cross identification cards to give underground Polish hospitals immunity from Nazi surveillance (Tucker 2005: 283–4). German brigadiers colluded with Polish forced labourers on German estates to steal goods from Nazi warehouses and sell them on the black market in exchange for food and money. *Kombinacja* became an expression of solidarity across classes, ethnicities and nations.

Holocaust literature also records this emerging ‘consciously’ness’ of kombinacja during the war. Primo Levi recalled in *Survival in Auschwitz* how Häftlings (prison inmates) used the practice to trade third-rate tobacco called Mahorca for a larger bread portion (1958: 80):

The traffic is an instance of a kind of ‘kombinacja’ frequently practiced: the Häftling, somehow saving a ration of bread, invests it in Mahorca; he cautiously gets in touch with a civilian addict who acquires the Mahorca, paying in cash with a portion of bread greater than that initially invested.

This practice was inmates’ only chance of survival: ‘Whosoever does not know how to become an “Organisator”, “Kombinator” … soon becomes a “musselman” – a walking cadaver’ (Levi 1958: 89). (‘Musselman’, the German word for a Muslim, was concentration camp slang for an inmate on the brink of death from starvation.) In Art Spiegelman’s Holocaust memoir *Maus*, the narrator’s cousin, Haskel, uses kombinacja to obtain
favours from the German guards in the Sosnowiec ghetto (Spiegelman 1973: 118):

‘Always Haskel was such a guy: a kombinator’.
‘A what?’
‘A guy what [sic] makes kombinacja, a schemer … a crook’.

The practice of kombinacja took on new dimensions under the socialist regime in Poland (1945–89). It became a widespread strategy used by workers, peasants, the nomenklatura and the state to control the workplace, as well as to survive and/or benefit from economic shortages. ‘Good’ kombinacja served ‘my/our’ interests; ‘bad’ kombinacja served the ‘other’ (usually state or nomenklatura) interests; although such nuances were in the eye of the beholder and subject to political manipulation. One worker’s claim that, ‘The State robs me, I rob the State, and it all comes out even’ (Pawlik 1992: 89) neatly summarises the broader findings of this author’s research: that the state used kombinacja against the people, and the people in turn responded with kombinacja against the state. A number of mandatory unpaid labour obligations (corvées, Soviet subbotniki, etc.) were formalised by legislation passed by the Polish People’s Republic (PRL). Communes could impose these obligations on workers and peasants, using their unpaid labour towards state building projects or fulfilling production quotas. Rather than supplying the harvests and commodities back to the people, the state exported them for profit, resulting in material shortages.

To balance out this state kombinacja and its resultant shortages, workers without independent unions used kombinacja to ‘take out’ (wynosić) or ‘domesticate for oneself’ (przyswoić sobie) state property (Pawlik 1992: 79). Workers’ inner justification for their kombinacja was rooted in the idealised socialist ‘common goods’ philosophy, i.e. that the state owned all property, and that the people owned the state (Barcikowska 2004). Thus, the workers were only taking what was theirs anyway. ‘Zkombinowane’ resources were usually food, tools, commodities and building materials taken home from state workplaces. Peasants withheld state agricultural quotas and diverted state property (meat, labour, technology, building materials) from the collective (kolchoz) and state farms (sovkhoz) into their farms to meet subsistence levels, or sold them to workers on the black market. Both workers and peasants manipulated this ‘paradoxical role as simultaneous employee and co-owner’ (Firlit and Chłopecki 1992: 100) by paying themselves ‘dividends’ from their factory or collective farms.
State officials and managers also exercised *kombinacja*, both to enable them to fulfil their official duties and to benefit privately. They ordered services from moonlighting repairmen who installed *zkombinowane* sinks into private homes; sold state-produced commodities on the black market for private gain; bought grain on the black market to meet a state quota; organised field trips for workers to travel to other bloc countries and sell state commodities on the black markets to supplement wages; and even allowed entrepreneurial *kombinators* to divert capital from state-run to ‘private’ factories that sold products to locals. Some were punished: a director of a state-run meat warehouse in Warsaw who admitted to taking bribes from state-run meat stores was hanged for his ‘economic crime’ in 1956 (Newsweek.pl 2010). For the most part, however, the authorities sided with the ‘us’ and allowed *kombinacja* to be exercised ‘against’ the higher state apparatus – a strategy that increased the *nomenklatura*’s private profits, helped them meet their ‘formal’ state obligations, and socially reproduced their local power.
During the post-socialist transition, the *nomenklatura* privatised and liquidated state property for profit or entrepreneurial ventures. This led many Poles to regard entrepreneurialism as ‘bad’ *kombinacja* that contributed to their poverty. Post-socialist *kombinacja*, ‘has been given a new cut-throat “entrepreneurial” twist’, in that people, ‘think that there must be a trick to everything’ (Barcikowska 2004: 3). Conversely, entrepreneurial Poles value *kombinacja* as fostering innovation in the new post-socialist economy. In 2012, Arkadius Hajduk – the founder of the ‘Huge Thing’ accelerator – told the *Wall Street Journal* that Poland’s start-up scene has a competitive edge: ‘We have a word in Polish – *kombinować* – it’s not really translatable, but it sort of means finding a way to do something but without a lot of resources’ (Rooney 2012: 1).

Meanwhile, *kombinacja* as survival strategy has also flourished in the turmoil of the post-communist transition to a free market economy. Free movement of labour has opened up new avenues for the practice, with workers able to switch between countries to maximise their income. Migrant workers who engage in transnational *kombinacja* between Poland and Norway informed the author that *kombinacja* is untranslatable and invisible to Westerners, implying that the concept lacks parallels in the West. White’s study showed how a village nurse relies upon *kombinować* (‘the idea of combining various assets’) to feed her family: ‘Grandmother helps a bit … My husband works at the bus factory. He does overtime when it’s available. Those are the different ways we survive [Tak kombinujemy]’ (White 2011: 39). The urban poor use the practice to supplement their wages: they temporarily migrate overseas, grow their own food, squat, access electricity illegally, claim benefits while working, apply for credit on behalf of family members. Their ‘good’ *kombinacja* absorbs any organised call on politicians to enact welfare and workplace reform.

6.14 *S vrutka* (Bulgaria)
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*S vrutka* is a rhetorical expression found in Bulgaria that literally means ‘with a twist’ and appears in phrases such as ‘everything happens with a twist’ or ‘everything is achievable with a twist’ – ‘vsichko stava s vrutka’.* S vrutka* is sometimes substituted by other terms, for example, *s fint, s trik, and s dalavera*, which comes from the Turkish word *dalavere*, meaning ‘deception, swindle, ploy or manoeuvre’. This colloquial figure of speech refers to the practice of pooling resources and manipulating one’s
networks and connections in order to achieve a goal. *S vrutka* is a part of the repertoire of linguistic means to communicate the intricate interplay between the formal and informal, legal and illegal, licit and illicit, legitimate and illegitimate modes of getting things done in contemporary Bulgarian society. It refers to practices across various normative domains and to activities that include both legal and illegal means of pursuing a goal.

In itself, ‘twisting’ suggests repositioning the existing elements in a system or re-arranging available resources. The introduction of new elements from outside and the use of expert knowledge can also be employed. Twisting can connote out-of-the-ordinary circumstances, an exceptional case, or an extraordinary effort necessary to conduct a transaction. The phrase *s vrutka* highlights several characteristics of everyday practices – it invokes creativity, fluidity and mastery of the social milieus and social and cultural knowledge, bordering on what Michael Herzfeld has called ‘cultural intimacy’ (Herzfeld 2004). The phrase refers not to the repertoire of informal practices, but rather to the way in which informal practices can be conducted. It signals communicative creativity and cultural intimacy because only insiders in a culture are able to exploit the existing rules, norms, regulations and other available social and cultural resources in order to achieve the desired goal.

There are many other popular figures of speech and ways to denote corruption or informality in Bulgaria. Two other common examples of expressions used are ‘beer money’ (*pari za edna bira; da pocherpya bira*) and ‘coffee money’ (*pari za kafe*). It is worth noting that neither expression is exclusive to the Bulgarian case. The same terms are found in Africa (Blundo et al. 2006). In both cases, however, the expressions tend to be used in the context of situations involving low-level bureaucrats. For example, when paperwork needs to be expedited, it may necessitate ‘beer money’ or ‘coffee money’ being paid. Unlike these popular figures of speech, however, *s vrutka* is not the same as discursive expressions ‘legitimizing discourses about corruption’ (Znoj 2007: 59).

It is methodologically difficult to definitively date when and how such popular expressions enter or leave everyday language, and if *s vrutka* has replaced ‘coffee money’. It is worth noting that *s vrutka* appears to have been referred to in the media towards the end of the first decade of the 2000s. In the same time, observations of people casually leaving a small amount of money (not unlike a tip) for public officials, saying they were for ‘coffee’, were, in this author’s ethnographic work carried out intermittently between 2008 and 2011, non-existent – in contrast to the 1990s when such a practice was reportedly common.
There are two prevailing contexts in which the phrase *s vrutka* is used. In media coverage the phrase is often used to imply a scheme circumventing a legal obstacle, usually through the workings of hierarchy and informal power, or through the careful navigation of available legal loopholes. In this case, saying that something happens ‘*s vrutka*’ is usually embedded in a narrative about elites and power play. For example, in a highly critical editorial in the daily newspaper *24 chasa*, chief editor Danka Vassileva used the term to question the way in which public funds are deposited in banks and for what reason. ‘For this twist [vrutka], Europe will not say congratulations … There is another version, of course, concerning corruption, which we would not even voice out loud, let alone believe’ (Vassileva 2012; translation Koycheva). When used in such contexts, *s vrutka* is often accompanied by an explanation of exactly how the manipulation takes place. In this usage, the term is another way of contributing to the visualisation of the mechanisms of power and the state through the deployment of narratives about it (Gupta 1995, 2005).

The second context is the vernacular one, encountered in daily usage, when usually no further explanation is given as to what the ‘twisting’ involves, but rather a form of meaningful silence follows. Employing the term in this way covers a range of everyday practices and communicative tactics that are often overlooked both within the larger field of post-socialist studies and within the specialism of informality studies: namely, the indeterminacy that Ledeneva has referred to as ‘open secrets’ and ‘non-articulated knowledge that people prefer to leave ambiguous’ (Ledeneva 2011: 727). It requires from all participants ‘the complicity to leave things unarticulated’ (Ledeneva 2011: 733), thus achieving through linguistic means what Blundo and Olivier de Sardan have termed, ‘an incessant alternation between condemnation and tolerance’ by actively engaging the ‘semantic fields of corruption’ (Blundo and Olivier de Sardan 2001: 110–11).

In a similar vein, in an everyday context, as used verbally and among friends, the term is encountered when people give an account of how they overcome daily challenges, or ostensibly absurd situations arising from bureaucratic restructuring or a contradiction of rules. Unlike *vruzki* (see 1.9 Volume 1), which can in certain circumstances occupy the same broad semantic space, *s vrutka* is often used when paperwork is involved. For example, since kindergarten spaces in the capital are severely limited, a family may acknowledge securing a space for their child ‘with a twist’, but will not specify which means were used: whether they actively exploited paperwork loopholes or employed *vruzki*, which
implies connections and a personal network. Thus, s vrutka does not necessarily always imply using vruski.

In sum, the usage of this term reveals several important aspects of informality, both in methodological and in theoretical terms and points to an area of research that has been under-explored in the scholarship on informality: language. The use of such a term raises methodological questions regarding the way in which social phenomena resist articulation by local informants and make such phenomena elusive. This in turn leads to important theoretical preoccupations about the pragmatics not only of informal practices themselves, but also crucially of the pragmatics of the scholarship of informality. It presents a conundrum: how to name phenomena without a priori ascribing normative value to them, which may or may not be part of the way they are experienced in the world of formal and informal interactions (see Lucy 1993 on pragmatics).

6.15 **Raccomandazione** (Italy)

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*Raccomandazione* (noun) is a widespread phenomenon in Italian culture that refers to the use of social connections in order to get things done. In English, it can loosely be translated in a more literal sense as ‘recommendation’ or ‘reference’, but its connotation is more accurately that of clout, string-pulling, influence and morally dubious backscratching. Informal practices in numerous other societies bear strong analogies to *raccomandazione*: among these, we may consider French *piston*, Russian *blat*, Chinese *guanxi*, Spanish *enchufismo*, and German *Vitamin B* (*B* as in *Beziehung*, meaning relationship, see entries 1.1–1.21 Volume 1).

In Italian, *raccomandazione* has a colloquial synonym, ‘little push’, *la spintarella*. Other expressions associated with it include: ‘to grease the wheels’ (*ungere le ruote*), ‘a kick in the rear end’ (to propel someone forward – *il calcio nel sedere*) and ‘the key’ (to open doors – *la chiave*). In spite of its common occurrence, a significant social stigma surrounds *raccomandazione*, and it is therefore often referred to with the euphemism *segnalazione* (‘put in a good word for someone’). In addition to its verb form, *raccomandare*, the key nouns deriving from *raccomandazione* are *raccomandato* and *raccomandante*. The *raccomandato* is a person who, bearing a *raccomandazione*, makes use of it to achieve some end. The term is derogatory, usually used to describe someone who has unjustly received some benefit, implying that he lacks merit or has violated proper procedures in order to get ahead. The *raccomandante* is the person who,
enjoying a position of power, prestige or influential relations, recommends the *raccomandato*. A third term of more recent usage (especially in the press) but less widely adopted, is *raccomandatario*, which denotes a person who is on the receiving end of a *raccomandazione* and who is presumably able to grant the request.

Among its wide-ranging implications, the term *raccomandazione* principally evokes the practice of using connections to find employment, especially in an attempt to secure a job in the public sector. This fact has led to the consolidation of an Italian cultural stereotype of the civil servant who, under-qualified and motivated primarily by the job security and benefits provided by public employment, has undeservingly managed to land such a job through his connections, and who performs his work in a lackadaisical manner. By association, *raccomandazione* is further linked to the overall perception of a bloated, Byzantine Italian bureaucracy. As a result, bureaucratic inefficiency itself begets the need for yet more *raccomandazioni* in order to speed things up or otherwise improve the delivery of services in the public sphere, including public hospitals. In the education sector, school and university students may become *raccomandati* in order to obtain better marks, often thanks to the initiative taken by their parents. More generally, *raccomandazione* can come into play in virtually every sphere of daily life: even in shopping or dining out, where a *raccomandazione* can be deployed to receive ‘special attention’ (*un occhio di riguardo*) or a discount.

*Raccomandazione* can encompass relatively innocuous interactions, such as the performance of a small courtesy, as well as more blatant forms of illegality. In the latter sense, it bears nuances that shade into bribes (*tangenti*, including the practice of *bustarella*, see 2.20 Volume 1), corruption and organised crime (*mafia*) – all of which may well feature the use of *raccomandazioni*. As a form of patronage-clientselism, *raccomandazione* can easily become bound up with chains of illicit and/or illegal exchanges for votes and other resources such as disability pensions, permits or jobs. On the other hand, *raccomandazione* can also be viewed in positive terms as a means of levelling the playing field in order to give an underdog a chance. The implication here is that because the well-to-do are automatically privileged, and others will be equipped with *raccomandazioni*, an otherwise deserving person may be unfairly penalised by the lack of a *raccomandazione*. We thus perceive the moral complexities surrounding *raccomandazione*, a phenomenon that Italians have often defined as a central negative feature of their own identity: associated with slyness, slighted as ‘a poor man’s making do’ (*l’arte dell’arrangiarsi*) and denounced as illegality, it is simultaneously
an expression of positive values of family, friendship, solidarity and reciprocity (see Figure 6.15.1).

Early social science treatments of Italian raccomandazione from the 1950s to the early 1970s framed the discussion in terms of patronage-clientelism issues that characterised a large part of the Mediterranean region, looking in particular at rural contexts. Such traditional clientelistic relationships featured vertical, dyadic ties between the raccomandante and raccomandato. In urban settings, the use of raccomandazioni for electoral patronage and organised crime has received greater attention

Figure 6.15.1 The sculpture by artist Donato Linzalata appears in the town of Bernalda, Italy and represents raccomandazione as a ‘key’ (to open doors). The artist says he was inspired by the study of raccomandazione by Zinn (2001).
Source: Author. © Dorothy L. Zinn.
(Gellner and Waterbury 1977; Chubb 1982). In Italy and in many other Mediterranean settings, the literature also describes how the language and practice of god-parenthood consolidated such relations. Moreover, Jeremy Boissevain’s pioneering work in Sicily (1966) noted the homologies between raccomandazione in patronage-clientelism and the Catholic religion, in which the devout may recommend themselves to the saints in order to reach a purpose. More recent analyses (Zinn 2001, 2013) have traced continuity and change in raccomandazione with Italy’s modernisation, underlining the way in which this cultural category and practice remains deeply entrenched. Post-war Italian society created the conditions for a ‘democratisation’ of raccomandazione, allowing it to become consolidated in new spheres and among ever-wider segments of the population.

The post-war expansion of raccomandazione is visible in Italian popular culture: an extremely well-known cultural trope in Italian society, raccomandazione has been depicted in numerous examples of Italian cultural production. One significant literary work is Alberto Moravia’s short story, La raccomandazione. The theme has also received attention periodically in cinematic representations, for example in classic films like I mostri (1963) and Mi manda Picone (1984), but also in more recent works such as C’è chi dice no (2011) and Quo Vado? (2015). With some irony (and self-irony), RAI public television used raccomandazione as the driving concept behind the television talent programme I raccomandati, which ran for nine seasons (2003–11).

Raccomandazione is difficult to research empirically because of the embarrassment and stigma associated with the phenomenon; nonetheless, people are generally willing to discuss cases of raccomandazione involving others. Despite the challenge of quantifying instances of raccomandazione, surveys published in Italian newspapers routinely report that a substantial percentage of persons interviewed utilise raccomandazioni when seeking employment. Quite apart from the empirical manifestations of raccomandazione, the ethnographic method employed in Zinn (2001) focused on the importance of its ideological dimensions. It was found that even in instances in which no actual raccomandazione had taken place, informants often assumed that one was involved. Moreover, the long-term, intimate approach of ethnography allows for the development of relations of trust that favour data-gathering despite a tendency for secrecy, and it effectively probes the morally ambivalent stances that people maintain with regard to raccomandazione.

Commonplace though the practice is, there is nonetheless widespread condemnation of raccomandazione in Italian society, and the
2012 Anti-Corruption Law (No. 190) attempted to make it illegal by defining it as ‘traffic of illicit influences’. Yet from a strictly legal point of view, court decisions have continued to decree that it is not a crime in the context of putting in a good word for someone. If, however, *raccomandazione* is supplemented with gifts or payment to a civil servant, it constitutes bribery or corruption in a penal sense. *Raccomandazione* persists in Italy in its various forms, even though measures for accountability and transparency have been enacted in the public administration since the 1990s. Simultaneously, the possible benefits made available through the public sector (especially jobs) have diminished through budget cuts and the shrinking of the welfare state. Moreover, a new cultural awareness emphasising meritocracy has gained increasing consensus among the younger generations of Italians: they often hesitate to ask for *raccomandazioni* or will protest more readily when they find that an injustice or a crime has been committed through the use of connections.

6.16 **Insider trading** (USA/general)
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‘Insider trading’ in financial markets refers to trading in securities such as equity and bonds by market participants who have access to exclusive information about the issuer of a particular security before such information is released to the general public. This allows insiders to benefit from buying or selling shares before they fluctuate in price. The longest prison sentence for insider trading in the United States – 11 years – was handed down in 2011 to hedge-fund manager and billionaire Raj Rajaratnam. Following this case, in 2012 the American judiciary found Rajaratnam’s business partner Rajat K. Gupta (former Goldman Sachs director and CEO of global consultancy firm McKinsey & Company) guilty of leaking non-public corporate information to Rajaratnam. Gupta was sentenced to two years in prison for conspiracy and securities fraud. Access to insider information had enabled Rajaratnam to make profits on trading stocks (and to avoid losses) to the tune of US$64 million, part of these gains resulting from Gupta’s tips (Raghavan 2013).

Insider trading has been present throughout the history of financial markets, and was particularly prevalent during periods of speculative stock market bubbles. Because of the strong influence of US anti-insider trading laws on other jurisdictions, the English word ‘insider’ is used in most languages. In most European Union (EU) member-states, a legal distinction is made between primary and secondary insiders.
Primary insiders gain access to information by virtue of their position, employment or responsibility. They include controlling shareholders, corporate executives and officers, as well as financial-market professionals who compile information on a firm’s operation. Government officials with access to insider information also fall into this category. Secondary insiders are friends or relatives of primary insiders, acting on tips and referred to as ‘tippees’ in the American legal tradition (Alexander 2007).

Insider trading is closely associated with price manipulation in financial markets, such as the creation of special corporate events to influence price movements of specific securities with the aim of eventual profit-making (Engelen and Leiderkerke 2010). While the practices associated with insider trading are less aggressive and more widespread than price manipulation, they are considered dubious and unethical. Since trading in securities may be viewed as a zero-sum game between market participants, insiders’ profits mean losses for their counterparties, including small and institutional investors such as pension funds. Empirical studies from the US and UK found that insiders earned abnormal profits above the average market-price fluctuations (Seyhun 2000; Friederich et al. 2002).

The US was the first country to ban insider trading. Since the nineteenth century, the American stock market had been the world’s largest, with broad popular involvement in securities trading, including the investment of pension savings in equities. The Great Crash of the American stock market of 1929 provoked the development of a complex regulative framework against insider trading. Initially, this was based on legislation such as the Securities Act of 1933 and the Securities Exchange Act of 1934, and on rules imposed by the powerful Securities and Exchange Commission (SEC), which investigates insider dealings. However, in accordance with common law tradition, the subsequent evolution of the anti-insider legal framework came to depend more on judicial interpretations in particular cases and court decisions. Thus, the actual prohibition of insider trading in the US was delayed until the 1960s, and lacked codification in the form of a specific anti-insider law. This makes the American judicial anti-insider trading framework somewhat contradictory and inconsistent. At the same time, the lack of a specific legal code provides more flexibility for the implementation of legislation (Bewaji 2012; Bainbridge 2013).

To meet the requirements of the SEC, US investment banks separated flows of information between their own departments by
instituting ‘Chinese walls’. These information barriers are purely normative, though in some cases departments dealing with mergers and acquisitions or research are physically separated from the trading department. The purpose of a ‘Chinese wall’ is to restrict access to information by employees who are not directly involved in delivering services for the bank’s corporate customers. Otherwise, non-public information may leak beyond interdepartmental ‘walls’ and other bank employees may potentially use it for insider trading in securities (Bartos 2008: 187–8).

Under the pressure of financial globalisation, the American experience of anti-insider legislation has spread to the rest of the world. Most advanced economies with developed financial markets have made insider trading illegal: France in 1970, the UK in 1980, Japan in 1988, Italy and Denmark in 1991, Austria in 1993, Spain and Germany in 1994. In the EU, the implementation of anti-insider laws was driven mainly by the European Community Insider Dealing Directive of 1989. Criminalisation notwithstanding, legal definitions of insider trading vary substantially between jurisdictions (Alexander 2007: 37–81; Engelen and Leiderkerke 2010). There is no universal take on the type of securities or other financial instruments. For example, UK insider-trading legislation exempts shares of public sector bodies while their debt securities are affected. In the US, courts have been reluctant to apply anti-insider laws to debt securities (Bewaji 2012). In Japan, non-listed securities and treasury instruments are excluded from anti-insider legislation. Actual enforcement of insider-trading regulation also varies (Bhattacharya and Daouk 2002). So far, the US remains the jurisdiction with the strongest record for enforcement. It has seen a significant number of legal cases where long prison sentences have been imposed on insiders found guilty of illegal trading, while enforcement tends to embrace a broader range of insiders (Bainbridge 2013).

Insider trading is common in developing countries, where it is practised by a wide range of market participants, corporate officers and regulatory authorities. Quantitative studies of this practice in the emerging markets are virtually absent because of a lack of reliable data and actual non-enforcement of anti-insider legislation. Interviewing market participants remains the main research method, making qualitative approaches of economic sociology and oral history an integral part of the few available studies in the field.

Despite evolving anti-insider legislation, there is a significant discrepancy between legislation and its implementation. The case of
anti-insider trading regulation in China is illustrative. China’s insider-trading legislation began to develop in the 1990s but its implementation was delayed until the late 2000s, the drawbacks including state regulators’ lack of independence and accountability, selectiveness of legal enforcement and low levels of judicial expertise to hear difficult cases (Huang 2013).

Wunmi Bewaji’s (2012) empirical study of insider trading in Nigeria attests to the broad abuse of insider trading in domestic financial markets. The release of corporate news does not generally lead to a change in share prices, since potential profits have already been taken by insiders before any such information is made public. More importantly, the Nigerian practice of insider trading highlights the unrooted nature of anti-corruption legislation when forcefully imposed on emerging markets. Few financial market professionals have an adequate understanding of insider trading or are aware of the existence of Nigeria’s anti-insider legislation.

In post-Soviet Russia, insider trading and market manipulation appeared with the emergence of the securities market in the 1990s. Foreign – mainly American – consultants played an active role in the formation of financial market institutions, leading on several occasions to conflicts of interests (Wedel 2001). Ironically, Russia’s only case to date of insider trading and market manipulation was uncovered by the American judiciary as part of the ‘Harvard Affair’ (McClintick 2006). High-ranking Russian officials were also engaged in speculation in the government short-term bond GKO market (Viktorov 2015). Since the 2000s, insider trading has been practised mainly by Russian state bureaucrats and corporate executives, who are well aware that their conduct is unethical. Such dealings are kept secret, though market participants usually know whose interests a particular stockbroker represents. Because of strong resistance by influential government ministers and oligarchs, the ban on insider trading was delayed until 2010, when a special anti-insider law was finally adopted, but its actual enforcement remains a task for the future.

Insider trading is internationally recognised as a serious problem by both financial market regulators and legislators. The evidence shows, however, that closing the gap between the introduction of a formal legislative framework and its implementation takes time. There is no uniform legal interpretation of insider trading. In particular, attempts to transplant the American model, grounded in the common law legal tradition, to countries with a civil law tradition makes implementation of legislation even more difficult.
6.17 **Externe Personen** (Germany)
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Author and journalist, Germany

In Germany, *externe Personen* (which literally means ‘external persons’) are individuals who work in the civil service, but do not officially have the status of civil servants. They maintain an external employment relationship in the non-state sector while on temporary secondment in the civil service. *Externe Personen* are seen as a potential gateway for lobbying. In the past, the European Commission also used external persons from private companies, but stopped this practice in 2009 following substantial criticism by politicians, media and non-governmental organisations (NGOs).

The German administrative regulation on the use of *externe Personen* in the federal administration regulates the exchange of personnel between the public administration on the one side, and the private sector or institutions of science, culture and civil society on the other side. The first paragraph of this administrative regulation from 2008 defines the term *externe Personen* as follows: ‘*Externe Personen* is one who has an employment relationship outside the civil service and works temporarily in the federal administration, while maintaining his previous employment relationship’ (General administrative regulation 2008).

In the media external persons are often called ‘externals’ (*Externe*) or ‘external employees’ (*externe Mitarbeiter*). They work for a limited but sometimes extended period of time, usually for several months or sometimes a number of years.

The term *externe Personen* does not include those working on temporary contracts or completing expert reports for the civil service. It includes only the use of personnel in the civil service who maintain their previous employment. For the purpose of the administrative regulation, ‘civil servant’ is an occupation in the service of the state, a federal state, a municipal, or another public body. In this regard, public enterprises are considered to be part of the civil service. Hence, religious associations, which are usually organised as public corporations in Germany, are excluded.

In the eyes of some observers, external persons are a new type of lobbying. They argue that *externe Personen* serve two different organisations at the same time and can have conflicts of interests. For example, the anti-lobbying NGO LobbyControl argued that *externe Personen* serve two masters at the same time (Maisch 2014), while some politicians have demanded that the practice be ended altogether (Gathmann 2008).
In contrast to policy advisors, *externe Personen* work within the administration and have access to internal data. In this respect, *externe Personen* bear similarities to national seconded experts in the European Commission. The difference is that national seconded experts today do not work for companies, unions or the like: they are usually employees of a national or regional public administration. Yet, several years ago, before the Commission put an end to the practice, national seconded experts and temporary administrators (non-permanent officials) were allowed to come from private companies. For instance, an employee of the German chemical company BASF worked as a temporary administrator in the European Commission from 2001 to 2004. His work was concerned with the European Union directive REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) – a conflict of interests. Siim Kallas – the commissioner responsible for administrative affairs at that time – put an end to the practice in the European Commission as a response to criticism by Green politicians, media and NGOs. Kallas stated that the use of external persons was a ‘German idea’. According to the European Commission, no representatives from companies, associations or trade unions have worked for the European Commission since 2009 (Adamek and Otto 2008: 197, 219; Röhrig 2008).

It is important to distinguish between the terms *externe Personen* and lobbyists. Some *externe Personen* may be perceived as lobbyists, because they are employees of private companies. Hence, in Germany most external persons’ original employers are public institutions or research centres like the German Aerospace Center. For instance, the Ministry of Justice feared that a planned exchange with a trade association could be perceived as industry influence on the ministry’s policy, and cancelled its plans for the exchange (Maisch 2015: 27).

In 2004, the German government under Chancellor Gerhard Schröder (comprised of the Social Democratic Party (SPD) and the Greens) introduced a new programme for the exchange of personnel in order to improve the mutual understanding of public administration and the economy, and improve the transfer of knowledge between the public and private sectors. The government makes use of the temporary need for the externals’ expert knowledge and also sends officials to the private sector. The initiative, which started in October 2004, was part of the state programme ‘Modern State – modern administration’. Although under this programme personnel exchange took on a new dimension and became more public, this was not the beginning of such efforts: the Federal Ministry for Economic Cooperation and Development had already been practising such an exchange with the Federation of German
Industry (BDI) since 1997, while the Federal Ministry of Economics and Technology has had an exchange with companies and associations for more than 30 years.

In 2006, German media reported cases of conflicts of interests and how externe Personen influenced laws affecting their companies. Lobbyists contributed to laws in several ministries. One externe Person even leaked internal government documents to his original employer. An employee of the car manufacturer Daimler copied Ministry of Transport internal documents and informed his company about plans for a lorry toll (Adamek and Otto 2008: 147ff.).

As a reaction to these disclosures and the resulting widespread criticism, the government passed an administrative regulation on the use of externe Personen in July 2008. Since then, the Federal Ministry of the Interior has had to report twice a year to two committees of the Bundestag, giving details of the use of externe Personen in government and the ministries they are working in. Although it is forbidden for externals to write laws or to assign public contracts, they remain a potential gateway for lobbying. Research has shown that the ministerial bureaucracy is the primary addressee for lobbyists (von Alemann 1987: 175; Sebaldt 1997: 29, 254ff.; Lösche 2007: 66–70). One problem is that externals lack the legitimacy to work in the civil service, because they have not applied for a position in the civil service and are not officials. Hartmann (2014: 35f., 41) has criticised the use of external persons as unconstitutional, finding that neutral and effective control was missing.

In addition, externals reinforce the existing asymmetric access of big companies and associations to ministries. Some single organisations get privileged access to the civil service, while others lack these opportunities, which potentially adversely impacts marginalised groups and un-organisable interests. Research shows that the BDI has sent many externals to multiple ministries, while only one came from a trade union (Maisch 2015: 30ff.).

In general, there is surprisingly little research on the phenomenon of externe Personen. In principle, research may combine qualitative and quantitative methods. It is possible to count how many externe Personen there are in each ministry, because the Federal Ministry of the Interior publishes annual reports on their use. Until the year 2015 the ministry produced biannual reports, but these were not published. Even though these older reports are not public, it is possible to obtain access to them (for instance, by using the Freedom of Information Act called Informationsfreiheitsgesetz). The number of externals can be compared over time and across ministries. Researchers can use the reports for a
content analysis and classify the external persons’ activities. Expert interviews are a further method to measure the impact of externals, although in practice most ministries involved seem to be unwilling to answer scientists’ questions about this topic.

An analysis of the above-mentioned reports by the author shows that the number of external persons within the federal administration decreased from 61 in 2008 to 42 in 2014 (Maisch 2015: 24f.). It seems that increasing transparency and public criticism of the use of externals led to the decrease in their use.

6.18 Pantouflage (France)
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Pantouflage is the practice of leaving a civil service position to obtain work in the private sector in France. The civil servant is typically granted secondment to the private sector position in the first instance, and so reserves the option to return to his civil service position at the end of the secondment period, although a permanent move to the private sector is also known as pantouflage. The term pantouflage is derived from the word pantoufle (a slipper), which in the slang of students from the Ecole Polytechnique (a high-status military engineering school, popularly known as ‘X’ due to the school symbol of two crossed canons), means the price paid to the State to defray one’s obligations to it: education costs and the commitment to serve it for 10 years (Kessler 1986). In an American context, this practice is known as ‘revolving door’. There are several reasons why civil servants opt for pantouflage: the wage differential with the private sector; the attractiveness of new experiences in business where they can actually take risks and see their projects realised; and the difficulty of access to the few most prestigious civil service positions (Rouban 2002).

The top management positions in the public sector (and indeed, frequently the private sector too) are held by corpsards: members of the Grands Corps de l’Etat, networks of civil servants that play a significant role in the government and business structure of France. It is a social group drawn from the dominant social classes, providing it with an aura of prestige and power (Kessler 1986). Having a pyramid structure, the grands corps require a significant fraction of their members to move on, because not everyone cannot attain the highest levels. Civil servants may be granted secondment from their job in the public sector to a private sector position for a period lasting from one to three years.
For its part, the industry ‘buys’ or hires *corpsards* from the State by offering them high-paying and prestigious job positions. The rationale is to gain personal access to government officials, obtain governmental inside information and seek favourable legislation and government contracts. Consequently, *pantouflage* raises ethical problems of duty and vested interests resulting from the boundary between public and private spheres becoming obscured. A number of legal safeguards are in place to try and prevent such conflicts of interest arising. For example, civil servants are prohibited from moving to a company they have supervised, advised or drawn up a contract with in the previous three years. A special ethics commission (*commission de déontologie de la fonction publique*) is in charge of ruling on *pantouflage* secondments, although this has not always been sufficient to prevent perceived conflicts of interest. For example, in 2009 François Pérol was accused of a conflict of interest when he became CEO of BPCE, France’s second-largest bank. BPCE had been created from the merger of two banks, Banque Populaire and Caisses d’Épargne. Pérol was said to have overseen the merger as an economic advisor to President Nicolas Sarkozy, but did not inform the ethics commission of his move (*The Economist* 2014). Two members of the commission resigned in protest and Pérol was prosecuted following formal complaints by anti-corruption pressure groups and banking trade unions (*The Economist* 2014). Nevertheless, the Paris Court acquitted François Pérol in September 2015.

*Retro pantouflage* refers to the practice of coming back from *pantouflage* to take a civil service position again. The *corpsards* who choose *retro pantouflage* may expect an important position in exchange for their financial ‘sacrifice’ in rejoining the public sector. One controversial example of *retro pantouflage* concerns François Villeroy de Galhau, who held many prestigious civil service positions including Counsellor of the Prime Minister of France and Head of Cabinet of the Minister of the Economy. He opted for *pantouflage* from 2003 to 2015, his last position being at BNP Paribas, a French multinational bank and financial service company. When the French president proposed his candidacy for the position of Governor of the Bank of France, 150 French economists denounced his nomination in an open letter published in *Le Monde*. They objected that his nomination posed a serious conflict of interests because, having served the banking industry, he could hardly be expected to monitor the banks with impartiality and independence just a few months later. However, his candidacy was approved by Parliament and he became the Governor of the Bank of France in November 2015.
To better understand why industry is so interested in attracting corpsards, it is important to understand how they are selected, trained and developed. Corpsards’ solidarity is rooted firmly in their sense of being part of an elite: members are very conscious of their common values forged during a tough entrance contest and a highly competitive learning process (Kessler 1986). The members of the Grands Corps de l’Etat are mainly (although not exclusively) the top-ranking graduates from the French elite Grandes Ecoles (graduate schools): the Ecole Nationale d’Administration (ENA, National School of Administration), which produces entrants to the Grand Administrative Corps of the State; and the Ecole Polytechnique, which produces entrants to the Grand Technical Corps of the State. The Grandes Ecoles may be compared to Oxbridge (Oxford and Cambridge Universities) in the UK or to the Ivy League in the USA. Unlike French universities, which do not have the right to select their students, Grandes Ecoles select their students by means of a tough entrance contest focused on strong mathematical or cultural knowledge and skills (Barsoux and Lawrence 1991). In order to pass the contest, students enrol in two-year preparatory classes, known as classes préparatoires or simply prépas.

Top-ranking graduates can choose which grand corps they wish to join. As the ENA, Polytechnique and the Ecole normale superieure (ENS) are civil servant schools, their students are already technically civil servants during their studies and are obliged to give 10 years of service to the State. Corpsards receive challenging assignments and strategic responsibilities within the civil service from the beginning of their careers. These elite state development opportunities together with the elite academic legitimacy enables corpsards to develop skills and networks that are crucial for their careers (Bauer and Cohen 1981). Thus, the grands corps possess a form of ‘double capital’: social capital of relationships at the highest level and technical capital of knowledge and methods (Kessler 1986).

According to Bauer and Bertin-Mourot (1996), 44.5 per cent of top managers in major French firms had previous experience in the senior civil service, being recruited externally and appointed (‘helicoptered’ or ‘parachuted’) to the top positions. As a consequence of the importance of pantouflage (and thus the grands corps and Grandes Ecoles) in French business networks, the number of self-educated executives among leaders of large firms is particularly low in France (Roussillon and Bournois 2002). Thus, some studies of Grand Corps de l’Etat are devoted to the careers of énarques (e.g. Bouzidi et al. 2010) or careers of top managers in general (e.g. Bauer and Bertin-Mourot 1996; Davoine and Ravasi 2013). The former studied a sample of civil administrators who had graduated from the ENA and been assigned to the Ministry of Finance from
1960 to 1992. They found that pantouflage is a common practice: in a 20-year career, 40 per cent of finance directors have at least one spell in the private sector, a percentage that rises to 60 per cent in the course of a 30-year career (Bouzidi et al. 2010).

The career path of top managers in France is called the Latin model, and is characterised by high inter-functional and inter-company mobility. The Latin model relies on the selection of top managers in relation to their educational qualifications, i.e. corpsards or alumni of other elite Grandes Ecoles (Evans et al. 1989). More recent research by Davoine and Ravasi (2013) has shown that the model is still functioning in the same way. In France, one-fifth of top managers (and a third of CEOs) in the study sample had previous experience as a senior civil servant, while in Germany and the UK only 3 per cent of top managers had civil service experience. Moreover, 38 per cent of university-educated top managers in France are graduates of the Ecole Polytechnique, HEC or ENA. For comparison purposes, only 14 per cent of university-educated top managers in the UK graduated from Oxford or Cambridge (Davoine and Ravasi 2013).

6.19 **Stróman** (Hungary)
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Stróman is a Hungarian colloquial term used for a person who acts on behalf of a principal. The literal English meaning of stróman is scarecrow or hay-man. The word is widely used in Hungary; it is almost universally known. When it appears in everyday conversations, it often has a negative connotation because somebody’s stróman is regarded as an inferior servant who loyally follows his/her master’s orders. Moreover, there is also a common belief that the principal probably has an unethical or even illegal reason to use a stróman instead of acting by him/herself. Analogous practices exist in other countries. For example, the word strohmann is known and used in a similar way in Germany. Prestanome is the Italian version of stróman, while in Russian the words podstavnoe litso (literally ‘dummy person’), or frontirovanie (‘fronting’) are used.

In Hungary the use of the term stróman can be traced back to the pre-Second-World-War years when the first (1938) and second (1939) ‘Jewish Law’ in Hungary significantly restricted the number of Jews in liberal professions, public administration, and in commercial and industrial businesses. As a result, about 90,000 Jewish people lost their jobs or businesses. Jewish owners were forced to pass their enterprises – from small shops to large
corporations – to new Catholic owners, but many of them continued to control the company from behind the scenes (Kadar and Vagi 2004: 63). Hungarians started to use the word stróman to refer to these visible but fake Catholic business owners. In fact, the widespread stróman system helped many Jewish families to maintain some level of income during the hostile anti-Semitic political environment of the late 1930s.

New forms of the use of stróman emerged in Hungary in the 1990s and have become a ‘normal’ phenomenon in the daily life of the country’s post-socialist economy. Being a ‘paper’ owner of a company that provides fake receipts for fictitious services is the most typical role of a stróman in contemporary Hungary. Buying fake receipts from a stróman’s company is a response of entrepreneurs and many ordinary citizens to strong external constraints. For example, tax statistics indicate that more than one-third of the Hungarian labour force earns only the minimum wage (NAV 2013), yet in reality most of these employees are earning more, but declaring only a minimum wage. To avoid the tax burden on labour, companies often force their employees to obtain fake receipts for bogus services in order to receive the part of their salary that exceeds the minimum wage.

The value-added tax (VAT) rate in Hungary is 27 per cent, the highest in the world. Hungarian companies routinely buy receipts from stróman companies in order to prove false costs for fictitious service and so reduce the VAT they need to pay. It is reported that stróman company schemes – chains of deliberately created and managed fake ‘receipt factories’ (számlagyár) – exist in Hungary, in which the final receipt giver often happens to be a foreign company in Ukraine or Serbia that cannot be investigated by the Hungarian tax authority (Baka 2014). Many receipt schemes operate relatively securely because their shadow owners have good connections to political parties, to government officers and to the tax authority. Thus they are able to ‘turn off’ external controls of anti-corruption units, judicial authorities or prosecutors (Jancsics and Jávor 2012).

Stróman relations constitute a hybrid informal institution. Although a stróman is a visible and legal member of a formal organisation, they fulfil the principal’s hidden, often illegal, agenda that may significantly deviate from the official organisational goals. On the surface a stróman follows formal rules, yet he also has to violate them to obey his boss’s orders. A stróman is thus an intriguing type of actor who belongs to the formal and the informal realms at the same time, acting as a broker to connect the shadow principal with the outside world. According to a classification based on the group orientation of the actors in brokerage (Gould
and Fernandez 1989), stróman falls into the category of ‘representative broker’, who is delegated by another actor or a group to represent the group’s interest and deal with outsiders on behalf of the real boss.

There are three functions that a stróman, sometimes simultaneously, performs: (1) fall guy, (2) hidden identity and (3) hidden ownership. A stróman may fulfil a fall guy function that buffers risk between the outside world and his principal. Whenever a company gets involved in illicit practices such as bankruptcy fraud, tax evasion or embezzlement and when things go wrong, the stróman as the formal owner or executive of the company will be responsible for tax, salary or mortgage debts, while the authorities cannot reach the real owner since they are not officially affiliated with the company. In this way the use of a ‘representative broker’ reduces the transaction costs derived from high-risk illegal business activities (Della Porta and Vanucci 2012: 158; Lambsdorff 2007: 160).

Another function of stróman is to keep the identity of the real actors hidden in different deals. In the case of offshore schemes or trust ownership the right of the real owner is usually guaranteed by a private contract such as a declaration of trust. Here stróman is just a trusted individual and there is not any formal relationship or contract between the fake and the real owner. The practice of some multinational companies in Hungary offers an example. In order to keep the price down, a stróman’s company is used to buy property that later will be bought and used by a foreign carmaker, bank or merchandise retailer. If a financially strong and a well-known brand negotiated directly with the seller, often a local government would set a much higher price for the property. A similar stróman function can also be found in corrupt procurement cases, when tender-winner principals try to hide the fact that they informally control all the subcontractors in a project. Hungarian oligarchs often use this arrangement. Here seemingly independent companies perform different works while in fact all subcontractors are run by a stróman, and ultimately every penny ends up in the principal’s pocket. This structure also allows the principal to control and manipulate the prices and resources at all levels of the project.

Principals may also use stróman when their ownership rights are limited or banned by law. For example, despite the fact that foreign citizens are prohibited from buying agricultural land in Hungary, German and Austrian farmers have bought large areas of land by using a Hungarian stróman. Public servants whose business activity is limited by law also hire stróman to run their companies. Such companies often receive big government contracts from the department where the shadow owner is in a position of power.
In most cases, there is an unequal power relationship between the *stróman* and the principal. Sometimes socially marginalised people, homeless or foreign refugees are chosen as company owners and CEOs (see Figure 6.19.1). They are willing to take huge risks for a relatively small amount of compensation. It is also typical that people who are unemployed or retired ‘on paper’ are owners of several companies and the *stróman*’s apartment in a poor residential area is the ‘headquarters’ of dozens or even hundreds of companies. However, since the global economic crisis severely hit Hungary it is much harder to find good white-collar jobs and more well-educated young people are willing to take the risk and become visible but fake leaders of companies with suspicious activities. In cases when the ownership rights of the principal are limited but the company’s operation and assets are real, the shadow owner needs a reliable *stróman* to actually run the company. Here a socially closer

**Figure 6.19.1** The two homeless people pictured (László Kutruucz and László Baráth) were CEOs of several companies. The Hungarian subsidiary of Siemens received huge amounts of public money through procurement from Hungarian hospitals. These fake companies had consulting contracts with Siemens. The homeless CEOs’ job was to withdraw money from the fake companies’ bank accounts and give it back in cash to their shadow principals. This case was explored by an investigative journalist, Annett Sipos, and published in *HVG* (Hungarian economic magazine) in 2006.

Source: hvg.hu/itthon/20061211_siemens. © Gergely Túry.
stroman, such as a family member, friend, former colleague or classmate is chosen to be the visible representative of the company.

Although the stroman is usually in a subordinate position he still has some leverage with his boss. The fact that he knows a lot about the shadow principal’s illicit practices makes their relationship dynamic and complex. The actors become interdependent and capable of blackmailing each other and this provides bargaining chips in negotiations between them.

6.20 Benami (India)
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A benami transaction is one where a person purchases a property in the name of another without intending to transfer any beneficial interest in the property to the other person. The person in whose name the property is bought is known as the benamidar and the person who advanced the consideration for the property (and is the real owner) is described as the holder of beneficial interest in the property (Law Commission of India 1988; Mitra 2010: 448–9). The term benami can be broken up to literally translate as ‘without name’ (be being ‘without’, and nam being ‘name’). The origin of the expression ‘benami’ is also traced back to the Persian language, in which the term means ‘fictitious’ (Mitra 2010: 448). A benamidar comes very close to the practice of stroman in Hungary (see 6.19 in this volume), acting like the latter to conceal the identity of the true owner of the property, primarily from state agencies.

Prior to 1988, benami transactions were a part of Indian law. However, in May 1988 following recommendations made by the Law Commission of India, the President of India passed an Ordinance entitled ‘Benami Transactions (Prohibition of the Right to Recover Property) Ordinance, 1988’ whereby benami transactions ceased to be recognised as legal. A law entitled the ‘The Benami Transactions (Prohibitions) Act 1988’ (‘The Act’) was brought into force soon thereafter. The Act defines benami transactions as ‘any transaction in which property is transferred to one person for a consideration paid or provided by another person’ (Government of India 1988: sec. 2 (a)).

This definition in itself has been the basis of much debate (Bhaskaran Nambiar 1989; Joseph 1989), which has resulted in the nature of benami transactions and their validity being largely decided by case law. The Supreme Court of India has construed that the word benami is used to
denote two classes of transactions, which differ from each other in their legal character and incidents.

Where a person buys a property with his own money but in the name of another person without any intention to benefit such other person, the transaction is called *benami*. In that case, the transferee holds the property for the benefit of the person who has contributed the purchase money, and he is the real owner. The second case, which is loosely termed as a *benami* transaction is a case where a person conveys in favour of another without the intention of transferring the title to the property thereunder. In this case, the transferor continues to be the real owner.

(Supreme Court of India 1979)

The difference between the two kinds of *benami* transactions referred to above lies in the fact that in the first case there is an operative transfer from the transferor to the transferee, where the latter holds the property for the benefit of the person who has contributed the purchase money. In the second situation there is no operative transfer at all and the title rests with the transferor despite the execution of conveyance. One common feature, however, in both of these cases is that the real title is divorced from the ostensible title and they are vested in different persons (Mitra 2010: 448, 451).

While deciding whether a transaction is *benami* or not, the court considers the motive of the person taking the sale deed in the name of another, the custody of the sale deed, the passing of consideration and the possession of property. Additionally, the court also pays attention to the relationship between the parties, the reason for the transaction, the source of the consideration and the circumstances surrounding such a transaction. *Benami* transactions, however, have always been part of property ownership practices among both Hindus and Muslims in India, and particularly within the affluent class (Derrett and Duncan 1962: 865). One reason why such transactions remain prominent is because of the customary belief that certain persons are ‘luckier’ than others (see also Law Commission of India 1988: 37) and therefore it is thought that properties bought in the names of such persons are more likely to remain secure and bring increased wealth. In such cases the nominated *benāmidar* is often a female individual with close relations (sister, mother, wife or daughter) or a minor child. Simultaneously, such investments also act (albeit unintentionally) as a source of financial security for women who traditionally enjoy little other protection. Later this provision was incorporated in the Act under Section 3 (2), which
allows a person to buy property in the name of his wife or unmarried daughter, on the presumption that the property has been purchased for the benefit of the wife or the unmarried daughter (Government of India 1988: sec. 3 (2)). The law applies the ‘doctrine of advancement’ as understood under English Law in this scenario, which prevents the father or husband from reclaiming the property on the grounds that either the wife or the unmarried daughter was a *benamidār*.

Apart from this exception, the Act proceeds on the basis that the whole purpose of *benāmi* transactions is to conceal from strangers, and from the Government in particular, the identity of the actual owner and beneficiary of the property. More specifically, as the Law Commission of India points out in their report, preceding the enactment of this Act *benāmi* transactions were always undertaken with the intention of either circumventing tax laws such as wealth tax, gift tax and income tax or to overcome socially beneficent legislation enacted by the state and central governments in India for an equitable redistribution of property (Law Commission of India 1988: 38).

For example, under section 35 of the Bombay Tenancy and Agricultural Lands Act, 1948, it was provided that on ‘Tiller’s day’, on 1 April 1957, all tenants of agricultural property should become eligible to become owners of the land. Subject to some provisions of the said Act, such transfer of title from landlord to tenant became inevitable. However, decades after the Bombay Tenancy and Agricultural Lands Act, 1948 was passed, a survey in Borsad Taluka of Kaira District in the state of Gujarat revealed thousands of concealed tenancies that had been retained under the guise of *benāmi* transactions; the then owners having transferred the property to the names of the then tenants, while continuing to retain a beneficial interest in the property (Law Commission of India 1988: 36).

In recent times, it is not uncommon to find cases of *benāmi* transactions in the purchase of tribal land by non-tribal individuals. In this instance the objective is to overcome an order by the Supreme Court of India that made it unconstitutional to purchase land belonging to Scheduled Caste (SC) and Scheduled Tribes (ST) by members of communities who were neither SC or ST; companies were also included in this ruling (Indian Express 2012; Misra and Radhakrishnan 2012).

While *benāmi* transactions remain commonplace, very little research has been conducted into the nature and importance of such transactions in the present day. Recently, as the Government of India has set its focus on curtailing the flow of ‘black money’ (defined as income from undeclared illegally earned sources) into the country, *benāmi* transactions have received renewed attention from the Indian legislature.
A new Bill to limit the instances of such transactions and make them more visible was introduced by the Indian parliament in August 2015 (Deshpande 2015; The Hindu 2015).

The new bill is unlikely to end the practice of *benamī* as these transactions exist where customary beliefs and practical efficiency coincide, and at the same time are reinforced by the dynamics of social structures that actually facilitate such transactions. Section 24 of the new Bill on *benamī* transaction provides for the appointment of an ‘initiating officer’, who is entitled to investigate transactions he suspects to be *benamī* (Parliamentary Legislative Research 2016). The nature of *benamī* transactions often makes them socially legitimate within communities, thus making it very challenging to trace such transactions; in most instances they are carried out between people connected through close family relations or complex networks of reciprocities. As the monetary value of land increases rapidly in India, the government needs to devise more strategic initiatives to regulate this practice rather than trying to ban it completely.

6.21 **No entry** (India)
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The term *no entry* refers to an informal system of land transfer that is prevalent within the urban limits of Hyderabad, India. While similar practices may exist in other parts of the country, the term is specific to Hyderabad, which is India’s fifth largest city, and the capital of the recently formed state of Telengana. The term itself derives from the English word ‘notary’ or ‘notary public’, through the agency of which the alienation and transfer of property rights is deemed to be ratified. A notary public of the common law is a public officer appointed by either the central or state government to serve the public in matters concerned with estates, deeds, powers of attorney and foreign and international business (SRO.324, The Notaries Rules 1956). *No entry* is a colloquialism that has passed into common use, and while its root may be an English word, it is used frequently and even predominantly by those who do not speak English. The term can relate to the land that is being informally transferred, to the informal way it has been transferred, or to the informal documents that accompany such informal transactions.
No entry transactions are informal as they do not go through the State Revenue Department – the authority in charge of all matters pertaining to urban and rural lands at the state level (sub-national), including land expropriation, registration of transactions, determining terms of tenure, documenting title deeds etc. (Banerjee 2002a). Formal land transactions require approval by the State Revenue Department in addition to the signature and stamp of a Notary Public. In the case of a no entry transaction, the vital additional step of being approved by the State Revenue Department – and the resultant paying of land tax and stamp duty – is not taken. While the notary is a public officer, the ratification of property exchange without the State Revenue Department’s approval and formal registration constitutes an extra-legal act.

Sale and purchase of property via the no entry system is not entered in the land registry records, and none of the associated fees are paid to the state. These should include stamp duty (7 per cent of property value), transfer fee (2 per cent of property value) and registration fee (0.5 per cent of property value). Indian law requires the registration of all property transfers unless the value of the property under consideration is less than one hundred rupees (Registration Act 1908), which is roughly equivalent to £1 in exchange value. Yet in practice, such registration is rarely carried out. No entry documents resemble formal property sale agreements, made in good faith (bona fide), but drawn up on non-judicial stamp paper. A large proportion of no entry transactions involve exchanges of property located within informal settlements, slums or spaces where there may be multiple or conflicting claims on land (Bartlett and Satterthwaite 1989: 2–5).

The dual nature of the no entry system – not formal, but not wholly informal either, because it is structured and codified – is well suited to enabling transactions in cases where property rights are not clearly defined or deemed inalienable/non-transferable under the existing legal constraints. In other words, the no entry system appears to have evolved as a tactic to enable transactions that would otherwise be impossible under the law. Slums, spread across the country, create a massive demand for systems similar to no entry, based on a mélange of informal arrangements with the state, as well as those that emerge where the state is absent. Slums can be divided into notified, i.e. identified and recognised by the state, and non-notified slums. Notification is essential for slums to receive municipal services such as piped water, sanitation services and electricity, yet half of all slums in India are estimated to be non-notified (Subbaraman et al. 2012). The reasons for non-notification are associated with issues of ownership of the land that the slum occupies.
Notification is possible if the land belongs to the city government, but several slums in the Hyderabad area are located on government land that does not belong to the city government (Banerjee 2002a). For example, there are slums on land that belongs to the Central Defence Ministry, Ministry of Railways, and on private lands where there is some ambiguity about legal ownership.

In practical terms, for residents in notified slums on city government land, or in low-income housing colonies built under government schemes, notification opens the possibility of being granted a patta. Pattas are documents issued by the State Revenue Department, which bestow an inalienable property right under certain conditions and for a certain time period (Banerjee 2002b: 37–58). The conditions of the patta reflect the underlying objectives of the state and often aim at granting tenurial security, while restricting sale or marketisation (Banerjee 2002b: 37–58). Thus, the patta-holder may hold the right to live on the property and bequest it, but is not allowed to transfer or lease the property to a third party.

Against the backdrop of such limited property rights, the no entry system serves as an instrument for trading the officially non-tradable pattas. If a patta-holder decides to sell the land specified in the patta, a no entry document is drawn up and then notarised by the public notary office. The original patta along with the no entry document then constitutes a proof of ownership – with the understood limitation – for the new owner. With each subsequent sale, the original patta along with all of the no entry documents from each of the previous transactions gets passed on to the new owner. No entry land is not normally built over by the de facto owners or used as collateral, but it is often leased out either partially or wholly.

The nearest equivalent to the no entry system can be found in squatter settlements in Bogota, Colombia. Here, illegally subdivided plots are transferred via a private agreement, which is drawn up on ordinary paper, usually handwritten and not even registered by a notary (Aristizabel and Gomez 2002: 100–13). Interestingly, the seller may employ the use of a ‘figurehead’ (testaferro) – someone over 60 – to act as a co-signatory and nominal owner as ‘cover’ for the real owner, because senior citizens cannot be prosecuted under Colombian law (Aristizabel and Gomez 2002: 100–13). The no entry system can also be likened to the transfer system of properties through aurfi (roughly translatable as ‘hand claims’) contracts in Cairo, Egypt. The aurfi contract requires signatures of the buyer and the seller, as well as those of two male witnesses of their handshake agreement. Such contracts can be formalised through a relatively
simple and inexpensive procedure in a local court (the *dawa saha wa towqia*), though such formalisation does not give any legal status to the property transaction itself (Sims 2002: 79–87). In other words, while the procedure formalises the exchange of certain limited rights to the land, it does not acknowledge legal ownership of the land by the seller – and by extension the buyer. Like no entry, the *aurfi* contractual system is not recognised by the state as a legitimate means of property transfer. There is, however, an important difference between the two systems: the *aurfi* contract infers liability to pay *aawayid* (property tax), and thus implies a tacit acknowledgement of the informal system of property transfer by the Egyptian authorities, while in India there is no recognition of the no entry system. Comparable yet distinct informal land transfer practices have been reported to exist in Benin (Durand-Lasserve et al. 2002: 114–35), Burkina Faso (Mathieu et al. 2002: 109–28), North-West Rwanda (Andre 2002: 153–72), as well as some other parts of Africa (Rakodi 2004).

While the no entry system is specific to Hyderabad, most of the informal systems of land property transfer mentioned above perform similar functions in rural as well as urban contexts in developing countries. In rural contexts, they provide a low-cost means of enabling free market transactions that brings land to its most productive use (Deininger and Feder 2001: 288–331). For instance, land that is not being cultivated may be brought under cultivation by the new owners, especially where certain investments are required that would be uneconomical under a short-term lease. These informal mechanisms of transfer may also be recognised by informal lenders, allowing access to capital, where formal systems may be cumbersome or unavailable. Most significantly, these systems are more accessible to a wider set of potential buyers and sellers, providing greater equity in land markets. In urban settings, the issue of access to land is often intimately linked to access to housing or shelter and associated benefits such as livelihood opportunities, public services and credit (Payne 2002: 3–22). In countries like India where one in four city dwellers can be classified as poor, informal systems like no entry provide access to basic services for a vast number of people.

6.22 **Repetitorstvo** (Russia and FSU)
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*Repetitorstvo* is a Russian/Ukrainian term used across much of the former socialist bloc (Azeri *repetitorluq*; Belarusian *repietytarstva*; Polish
korepetycje) to describe supplementary private tutoring. The origin of the word is the Latin repetere, which stems from re (‘again’) and petere (‘to seek, beg, beseech’) and means to repeat, revise or reread. Repetitorstvo means that students are taught individually or in small groups on a paid basis in addition to their official school curriculum. Usually a school or university teacher is hired, who is then called the repetitor.

Private tutoring is a common practice all around the world, but repetitorstvo has its own peculiarities. While many parents hire private tutors to help their children to earn better grades, in the post-Soviet states repetitorstvo is seen as part of a wider shadow education system (Bray 2007) with both positive and negative consequences. On the one hand, it is a means to improve learning and increase human capital. It provides an additional source of income for education workers and compensates for the fall in their official wages, which, for example, in Russia in the 1990s fell by up to three-quarters in real terms (Kuzminov 2012: 334). It is also profitable for the state since it enables the government to save spending on education. On the other hand, repetitorstvo may distort teachers’ performance, foster unethical behaviour and corruption, and waste financial resources that might be used more effectively (Bray 2007: 18). It penalises the poor, by creating and expanding social inequalities. Hiring private tutors is costly, so repetitorstvo discriminates against students whose families cannot afford it. It undermines equal access to universities and increases social stratification and inequality.

Repetitorstvo is a common practice in all the post-Soviet states but its nature, costs and scale vary from country to country. During the Soviet period, repetitorstvo was not widespread. Tutors were hired to improve foreign-language skills, but this involved only a small number of students. But after the collapse of the USSR in 1991, repetitorstvo experienced dramatic growth when the state lost its monopoly over education and a private education industry emerged (Büdiene et al. 2006: 8). According to a comparative survey conducted among freshmen in 2004–5, 93 per cent of Azerbaijani students had received private tutoring in their final secondary school year. In Georgia the number was 80 per cent, Ukraine 79 per cent, Mongolia 71 per cent, Poland 66 per cent and Lithuania 62 per cent (Büdiene et al. 2006: 14). An Internet search for the term repetitorstvo comes up with over 8 million results on the popular Russian search engine yandex.ru, most of which are professional private tutoring services.

Silova (2010) identifies a chain of circumstances explaining the huge growth of repetitorstvo. One of the main reasons is the fall in
teachers’ salaries (Biswal 1999: 238). After the break-up of the Soviet Union, state spending on education fell dramatically across the successor states. Teachers and lecturers at all levels faced heavy wage cuts, often to below subsistence level. This forced them to seek supplementary income in the private economy, developing private education sector or shadow education system. Repetitorstvo was the most convenient alternative, as teachers kept their workplaces, but earned extra income without great effort. This ‘service’ was tolerated and even demanded by a growing middle class, who increasingly spent money on education to invest in their children’s futures (Bray 2013).

In the post-Soviet states, repetitorstvo often resembles petty corruption in the sense that citizens pay for a service that, according to law, should be provided for free. Biswal even applies Klitgaard’s (1988) famous formula, ‘Corruption equals monopoly plus discretion minus accountability’, to private tutoring and concludes (Biswal 1999: 223),

Klitgaard’s definition of corruption closely resembles the school teachers’ tutoring practice … They are the monopoly suppliers of their services to the students, they have the full discretion in what they supply, and they are hardly held accountable for their actions. This gives rise to a situation where the teachers try to extract students’ consumer surplus by shirking at school and supplying tutoring outside the school for a fee.

In the Central Asian states in particular, teachers create ‘artificial demand’ (Johnson 2011) to compel their students to take private lessons according to the logic that ‘You need to know X, Y, and Z to pass the exam. We’ll cover X and Y in class. If you want to learn Z, come to tutoring’ (Jayachandran 2013: 222), making tutoring virtually compulsory. Most citizens in the former USSR believe that schoolteachers treat pupils who receive private tutoring from them better than they do those who do not (Silova 2010: 334).

On a broader scale, repetitorstvo leads to a decline in quality of secondary education, because private tutoring is financially more attractive. ‘When schools offer for-profit tutoring, teachers teach less during the regular school day’ (Jayachandran 2013: 14). As a result, the gap between the secondary and tertiary education curriculums increases. At the same time, the demand for higher education increased rapidly in the region in the 1990s, heightening competition for university places and boosting the demand for repetitors to help aspiring students prepare for the entrance exams. Tutors with access to or membership of university admission boards, e. g. through blat-networks (Ledeneva 1998), were in
high demand. They used their influence to secure admission in return for higher remuneration than a normal repetitor would request.

This form of repetitorstvo was common in the 1990s and early 2000s, until most post-Soviet states reformed their university admission systems to prevent such forms of corruption (Gabrscek 2010). The new admission systems withdrew responsibility for university entrance examinations from admission boards and replaced them with unified and centrally state-administered examinations. As a result, the special repetitors lost their means of influence. Surprisingly, however, the practice of repetitorstvo increased further after the reforms: parents now no longer secure university access through bribes, but instead oblige their children to study with private tutors (Gabrscek 2010: 55).

Private supplementary tutoring is also widespread and highly institutionalised in East Asia (Zhang 2011). In Japan, two-thirds of students take supplementary classes at juku cram schools after their regular school lessons. In South Korea, more than 70,000 Hagwon cram schools teach the vast majority of Korean students. The amount of private money spent on private tutoring in Korea in 1996 equalled 150 per cent of the government’s education budget (Bray 2007: 27). Private tutoring is common both in developing countries in Africa (Paviot et al. 2008) and in developed countries such as the USA (Gordon et al. 2005) and Germany (Schneider 2005). It is rare, however, in most of these countries for private supplementary tutoring to have connotations of unethical behaviour or corruption, unlike the case of the post-Soviet countries. This makes repetitorstvo a specific informal phenomenon in the post-Soviet region.

6.23 Krysha (Russia, Ukraine, Belarus)
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Originating from criminal and law enforcement jargon, the term krysha, literally meaning ‘roof’ in Russian, is now broadly used to refer to individuals or organisations that provide a range of services, predominantly illicit and informal, ranging from protection and patronage, to the enforcement of contracts and settlement of disputes. The term has become popular in Russian, Ukrainian and Belorussian languages.
In Russian, it has a number of different forms: *kryshevaniye* (noun) meaning ‘protection racket’; *kryshevat’* (verb) meaning ‘to provide protection or patronage’; and *kryshuyushchiy* (participle) meaning ‘an individual or a group that provides protection or patronage’. In Ukrainian and Belorussian, the terms *kryshuvannya* and *kryšavańie* correspond to the Russian *kryshevaniye* and relate to the same phenomenon. No single English word can fully incorporate the multiple meanings and forms of *krysha*, but the term ‘protection racket’ roughly conveys the general meaning.

The term *krysha* became widely used in the post-Soviet republics after the disintegration of the Soviet Union when a series of sweeping political and socio-economic reforms, mainly concerned with the privatisation of state property, created a conducive environment for the empowerment of criminal organisations. Therefore, the earliest and most common usage of *krysha* relates to extortion by criminal organisations and gangs through the threat of violence or actual violence. ‘In many cases, the business will have to pay from 10 to 60 per cent of its pre-tax income for protection regardless of who provides it. … If the criminals find a business particularly attractive, they will demand an ownership share of it’ (CSIS 1997: 29).

Although extortion rackets are often indistinguishable in practice from protection rackets since, for the former, there will always be an implied threat that the racketeers themselves may attack the business if it fails or refuses to pay, *krysha* may turn into a mutually beneficial arrangement between organised crime and business owners. In such a case, a criminal organisation will not only promise not to attack the business, but it would also defend from other racketeers, corrupt law enforcement, debt collection, and would assist with customs clearance and help it to compete with actual or potential enemies and competitors. A threat of violence or actual violence as a means of collecting money or property from businesses is therefore not an inherent feature of *krysha* (Siegel 2012). Galeotti (2005: 57) writes that

[a] ‘good’ *krysha* provided by the more entrepreneurial gangs will not only protect you from other criminals, it will also provide a range of other services, from debt recovery (handled far more quickly and efficiently than Russia’s corrupt and inefficient courts) to an inside track on whom to bribe within the local authorities to get things done. This explains why an estimated 70–80 per cent of firms pay an average of 10–20 per cent of their profits for this ‘roof’.
Although Russian organised crime groups have been known to run *krysha*, public officials have also sought to offer such protective services and extract the same kind of informal payments as criminal organisations. Law enforcement agencies have been reported to operate a de facto protection racket for criminal organisations (Volkov 2002a). Dishonest public servants would need neither violence nor threat of violence to establish *krysha* but will manipulate the law and bureaucratic procedures. Such abuses of public office undermine the competitive market system, especially in the case of small and medium-sized businesses, making them dependent on informal arrangements between state officials and criminal organisations. McCarthy (2011: 64) argues that the involvement of public servants in protection rackets makes *krysha* in Russia strikingly different from analogous informal practices in other national contexts, such as *pizzo* (extortion money) levied by mafia organisations in Italy. Therefore, the effectiveness of a criminal *krysha* often depends on the power it has, relative to other protective ‘roofs’, including those provided by state institutions (Volkov 2002a). ‘Less powerful criminal groups would seek to align themselves with more powerful criminal groups, who in turn … obtain their own *krysha* from corrupt government officials’ (von Lampe 2015: 275).

Private security companies are another major player in the market of private protection. They are often run by criminal organisations that partially or fully legalise protection services (Volkov 2002b; Taylor 2011). Russian private security companies may thus engage in extra-legal activities, such as ‘sophisticated intelligence-gathering … and the informal use of blackmail files (*kompromat*), including copies of bank statements, currency transfers, business and real estate transactions and other official documents as well as general correspondence, personal information and unofficial transcripts of telephone conversations of a compromising nature’ (Ledeneva 2004: 138). These informal practices go far beyond the services that security companies are licensed to perform and clearly reflect the risks and uncertainties of doing business in Russia.

Moreover, since the police and the military personnel were largely underfunded after the collapse of the Soviet Union, they actively sought a share of the legal market in private protection (Cox 2001). While in some cases, criminal organisations would run private security firms, Taylor (2011: 164) notes that the police may often control the legal market in private security: ‘for example, the head of the municipal militia in St. Petersburg in the early 2000s reportedly oversaw roofing operations in the city, partially by controlling licenses for private security companies’.

Summing up, the types of *krysha* distinguished in post-Soviet societies are: criminal *krysha* provided by organised crime, semi-legal (or
‘combined’) krysha provided by criminal organisations and public officials working hand in hand, and government krysha, involving public officials of various state institutions. Having emerged in the 1990s, krysha practices remain a characteristic feature of the business culture in post-Soviet countries. Despite the efforts of post-Soviet governments to tackle these informal practices, foreign investors have continuously raised concerns about the troublesome reputation these states have when it comes to anti-competitive behaviour, extortion and bribery.

Creating façades (partial compliance with the rules by visible camouflage)

6.24 Window dressing (general)
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‘Window dressing’ describes a pretence or a façade, a showy misrepresentation of an idea or policy in an attempt to disguise an undesirable reality. The term is derived from the retail sector, where it means decorating a shop window with goods and trimmings in order to attract customers. In the financial sector, it denotes the deliberately misleading manipulation of a company’s income statement and balance sheet in order to create a falsely attractive image and thereby conceal poor performance or monetary losses; it may also refer to an excessively negative presentation of such figures. In the financial context, ‘window dressing’ is synonymous with ‘cooking the books’, ‘creative accounting’, ‘Enronomics’ (a reference to the accounting fraud carried out by US energy giant Enron, bankrupted in 2001), and the more euphemistic ‘earnings management’, which is used by accounting regulators and the academic community.

There are many reasons why companies engage in ‘window dressing’. Manipulating earnings upwards may help executives to hide poor decisions (such as value-destroying acquisitions), mitigate potential breaches of debt covenants (such as interest cover), meet analysts’ forecasts and boost share prices as a way of attracting investors. Managing earnings downwards may on the other hand help companies to secure government subsidies or relief, avoid or evade taxation, and pre-empt regulatory interference (such as anti-trust regulation). Meanwhile all these forms of manipulation can, of course, help to boost managers’ remuneration.

Window dressing is accordingly a global phenomenon that pervades all types of organisations, large and small, public and private, national and multinational. Even states and governments have been
accused of dressing up, for example, their gross domestic product and unemployment rate statistics. Window dressing is widely reported in the international media, especially its most extreme form – accounting fraud (see, for example, the cases relating not only to Enron but also to Polly Peck, WorldCom, Tyco, Parmalat, American International Group, Satyam, Olympus and Tesco). Comparable cases in academia have included fraudulent statistical studies (Burgstahler and Dichev 1997) and case-study ethnographies (Leung 2011). ‘Creative accounting’ has also entered popular culture, for example, in Mel Brooks’ satirical film The Producers (1967) and its Broadway musical version (2001).

From the legal perspective, window dressing is an ambiguous concept. While it is widely considered to be unethical – since it involves an element of deception – window dressing is not necessarily illegal. Accountants are expected to follow the spirit as well as the letter of the law and to observe the economic substance of a transaction rather than its legal form (ASB 1994). However, there is a jurisdictional contest between accountants and lawyers that undermines the authority of accounting standards (Pong 1999). There are also ‘finitist’ and interpretation problems in the application of accounting rules (Hatherly et al. 2008; MacKenzie 2008; Leung 2011). The debate about arguably the most important UK accounting term, ‘true and fair view’, is a case in point. Legislation and official accounting and auditing pronouncements require financial statements to give a ‘true and fair view’ of the state of affairs of a company. Yet there is no formal definition of the term and no universal agreement as to its meaning. In practice, the term is merely the opinion of a group of purported experts, the auditors. It is moreover generally acknowledged that there is more than one true and fair view that faithfully reflects a company’s position.

So how does one cook the books? Depending on one’s motive (to increase or decrease earnings and to hide debt), the practice involves overstating or understating the key elements of the financial statements: revenue, expenses, assets and liabilities. Examples of techniques that overstate revenue include recognising income early, before the product is delivered to the customer (treating sales orders as completed sales); ‘channel stuffing’ or ‘trade loading’, where excess products are dumped onto a distributor to inflate sales; and ‘round tripping’, where the same amounts of sales and cost of sales are recognised, for instance, from the reciprocal sales of identical assets between two companies.

There are myriad ways to manipulate expenses, such as changing the depreciation method (from reducing balance to straight line, extending the useful economic life of assets), using ‘cookie jars’ and ‘big baths’,
which involves making unrealistically large charges in the current period in order to decrease expenses in later periods, not writing down assets that have declined in value (such as obsolete inventories, damaged goodwill, bad debts) and capitalising expenses (such as classifying scientific research as assets rather than as expenses).

To remove debt or liabilities from the balance sheet – and thereby improve a company’s risk profile or creditworthiness – various ‘off-balance sheet’ tricks are employed. These include the sale and leaseback of assets, where finance leases are dubiously classified as operating leases, and the use of ‘special purpose entities’. In the latter case, various types of entities such as partnerships, joint ventures and trusts are excluded from the balance sheet because of their ‘materiality’, that is, their insignificant impact on investors (IASB 2010).

These techniques are well known, yet little has been done about them. In the UK, regulators and the accounting profession have revised the corporate governance and ethics codes, issued reporting standards that focus on the economic substance of transactions (ASB 1994, 2003) and consulted widely on the quality of auditing practice (APB 2001, 2010, 2012). In response to the Enron, WorldCom and other accounting frauds, US regulators created the Sarbanes-Oxley Act of 2002, which imposed stricter requirements on auditors and senior executives as regards the accuracy and completeness of financial reports.

As the 2008 banking crisis showed, however, such regulatory measures have had little or no impact on window dressing. As Arthur Levitt (1998) observed during his tenure as Chairman of the US Securities and Exchange Commission, the culture of the financial community and the structure of the capitalist system seem to demand that all listed corporations engage in earnings management. Participants in this market play a self-serving game of ‘nods and winks’: as used-car dealers spin stories to sell vehicles, corporate accountants concoct ‘bullshit’ to satisfy the needs of investors and analysts (Macintosh 2006, 2009) while auditors, who have long deserted their duties (House of Lords 2011), continue to be ‘lick-arses’ for corporate management (Sikka 2009).

6.25 Pripiski (Russia)
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Pripiski (‘add-ons’) is a Russian word denoting plan fraud – a form of accounting fraud that was specific to command economies under communist rule. Accounting fraud is found in all economic systems that separate...
the ownership of business assets from their management, so that managers must report performance to the owner or to superior officers. By falsely overstating performance, the manager is able to extract a benefit from the enterprise – directly, through a performance-based incentive, or indirectly, by creating a cover for some other criminal activity. The victim of accounting fraud is the owner or shareholder, whose true residual income from the enterprise is less than reported in the accounts. Because the fraud is not victimless, there is generally someone who has an incentive to expose it.

In communist command economies, accounting fraud had specific features. First of these was the form of the fraud. Under the command system, managers’ performance was evaluated by the degree of fulfilment of a plan, which specified the quota of output to be delivered to the state. Plan fraud involved falsely claiming fulfilment of the quota, and \textit{pripiski} denoted the non-existent output ‘added on’ to true output to make up the false claim. By overstating performance, the manager could obtain promotion, or a bonus, or reduced oversight. Such gains were generally shared with others: the management team, and sometimes the entire workforce, would enjoy public recognition or private rewards.

Plan fraud came to light if a victim or someone with inside knowledge blew the whistle. In principle the enterprise was state-owned, so the state was the legal victim, but this does not tell us who suffered directly. Suppose the plan required 100 tons of steel. When the enterprise claimed to have produced 100 tons, but delivered only 70, the immediate victim was the state purchaser, now short of 30 for use or further distribution. Downstream were more victims: the steel-users that would be short of steel and who therefore shared an incentive to expose the crime.

This indicates another feature of plan fraud: it relied on informal networks. A strong network based on mutual obligation and collective responsibility (see \textit{krugovaia poruka}, 3.10 Volume 1) was needed to co-opt victims and silence whistle-blowers. Such networks were easily formed. Inside the enterprise, colleagues and subordinates stood to gain from the manager’s deception. Ministerial superiors could also share the credit. Outside the enterprise were the victims, who would suffer losses. Therefore, the victims also had to be brought into the venture because, if left outside, they might expose it.

During the communist period, evidence on plan fraud was anecdotal, based on press reports and the recorded impressions of emigrants. The Soviet press offered selective reporting of particular cases. Expert evaluation suggested that this was the tip of an iceberg (Berliner 1957;
Nove 1957; Grossman 1960; Shenfield 1983; Shenfield and Hanson 1986; Linz 1988; Gregory 1990). Beneath the waterline lay undetected (but probably minor) offending on a wide scale.

Since then, more evidence has come from former Soviet archives (Harrison 2011; Harrison and Markevich 2015). The core evidence comprises records of 59 trials involving 163 defendants convicted on charges of plan fraud between 1943 and 1947, and 88 Communist Party investigations of 454 party members involving proven cases of plan fraud between 1943 and 1962. The archival records differ from Soviet-era press reports in that they are uncensored: they were selected as typical, for the information of Party leaders, whereas press reports were limited to what was thought suitable for public education.

Archival documents reveal a range of offenders. The most organised fraudsters systematically hid poor results to show loyalty, win reputation, and obtain bonus payments. Some managers did the same in order to be left alone while they carried out other crimes, for example, embezzlement or asset-stripping. In a third category were managers promoted above their capability, whose work was so chaotic that they were unable to do anything without breaking rules. These engaged in plan fraud to postpone the discovery of their other shortcomings.

The more common methods of plan fraud may be ranked in order of increasing risk of exposure. The safest method was to meet the plan by running down inventories, keeping the planner in ignorance. This was the only method that did not require the collusion of outsiders. Typically it came to light only when the plan fraud was used to cover crimes such as asset-stripping that others with inside knowledge found to be too risky.

Next was reporting work in progress as finished output. This stratagem required the collusion of the buyer, who had to sign for products not yet delivered. In effect the buyer ‘loaned’ the missing products to the seller, trusting the latter to make the arrears up in the next period. The buyer’s incentive was usually the need to keep the seller’s goodwill, backed by the seller’s implicit threat to treat the buyer even worse in future. Such threats and promises could work for a while, but fell apart if arrears accumulated, so that downstream plans were threatened. Another scam, widely practised in industry, construction and agriculture, was ‘quality shading’. The seller met the quota, but with products made from inferior materials or to inferior standards. Here the buyer’s cooperation was based on their inability to prove a deficiency or, again, fear of yet worse treatment in future.

The largest frauds took place in agriculture, where local party organisations shared farmers’ incentives to report success. When
harvests fell short, everyone in the local administration was under pressure to hide the shortfall ‘for the good of the cause’. To make up the quota, farms sold crops that were allegedly standing in the field to state distributors based on a promise to deliver the harvest later in the year. When the harvest failed, they would quietly buy the missing produce back. They also sold produce to the state, then bought it back and sold it to the state again; on occasion they recycled produce that they bought back from their own members. In this way, farms, distribution agencies and retail stores could count the same grain and butter against the plan several times over. Such scams were particularly risky because, when the harvest failed across a region, many agencies were trying to do the same thing in competition with each other, making concealment more difficult.

Economists seeking to measure the real growth of command economies were interested in whether the incidence of plan fraud varied over time. Optimistically, Alec Nove (1956) proposed a law of ‘equal cheating’: if fraud was equal over time, measures of real year-on-year growth would be unaffected. Stephen Shenfield (1983) took a gloomier view, suggesting that fraud was likely to rise and fall with plan tension. On the archival evidence, Shenfield was on the right track. The distribution of party investigations from 1943 to 1962 (the only continuous period for which we have data) shows several waves. A positive correlation between the annual value of cheating and the number of reported offences suggests that the waves were caused by variations in the level of crime, not of policing. On that basis, the extent of plan fraud rose and fell from year to year, making it harder to trust reports of the annual change in output of command economies.

6.26 Kupona (Kosovo)
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Kupona is a system of tax evasion found in Kosovo and refers to the practice of commercial businesses not registering transactions or printing receipts in order to avoid paying value-added tax (VAT). It is distinct from fraud as it is a consequence of ‘protection racketeering’, which is endemic in Kosovo, allegedly perpetrated by former guerrilla fighters and warlords of the Kosovo War (1998–9) who have now established themselves as the country’s political elite. Kupona is a practice that allows commercial businesses to generate enough revenue to survive, classifying it as a functional form of ambivalence. The word kupona is derived from the
singular *kuponi fiskal*, the Albanian word for ‘receipt’, which literally translates as ‘fiscal coupon’. However, the term is mostly associated with the informal practice.

The practice of *kupona* seems to be prevalent in the new states emerging from the dissolution of Yugoslavia, in part resulting from their inefficient bureaucracies. It is therefore likely that there are, or previously were, similar practices throughout the countries of the former Yugoslavia exacerbated by their recent statehood. Other analogous practices can be found in the Far East as indicated by the countermeasures employed there, and include the practices of ‘fapiao’ in China and the ‘Uniform Invoice Lottery’ in Taiwan (Wan 2010). In the Taiwanese case, in order to prevent this specific form of tax evasion, the state prints lottery numbers for the state lottery on receipts, thus effectively transforming the receipt into a lottery ticket. This has the desired effect of increasing the likelihood of a customer not only requesting a receipt, but also retaining it.

According to the typologies of formal–informal institutional interactions (Helmke and Levistky 2004), the *kupona* practice can be considered as a competing practice, although not an institution in itself. *Kupona* is competing against the formal institutions of the state, specifically the tax authorities, in trying to ensure that the businesses retain as much of the income they generate as possible, which in turn then enables them to cover the hidden cost of ‘protection racketeering’. The development of such informality can be traced to the current economic situation of Kosovo and its development in the immediate post-war period (1999–2008). In terms of its economy, the Province of Kosovo was the poorest province of Yugoslavia because of its lack of significant natural resources. It was therefore heavily reliant upon Yugoslav federal subsidies. The dissolution of Yugoslavia brought an end to the subsidies and the ensuing war destroyed most of the pre-existing industry, of which there was little. With a lack of natural resources, it was inevitable that the economy would be driven primarily by small commercial businesses. As a result of the development of the commercial services sector as the primary business, it was natural for illegal activities and practices to develop alongside and within them. It is estimated that $200 million per year (Phillips 2010: 8) is generated through such practices, much of it through ‘protection racketeering’.

The illegal practice of racketeering remains one of the primary factors influencing the economy, fuelling practices such as *kupona* as a necessary reaction. Although establishing and conducting business in Kosovo is already difficult due to the high levels of corruption,
‘protection racketeering’ presents an additional ‘hidden’ cost to the business process. Furthermore, Kosovo remains one of the poorest countries in Europe with an average gross national income (GNI) per capita of $3,990 as of 2014 (World Bank 2014). Youth (18–24) unemployment is very high at 61 per cent, with an overall unemployment rate standing at 35 per cent. Those in employment report an average net salary between €300 to €400 a month (Agjencia e Statistikave të Kosovës 2015). Given these statistics, it is unlikely that the running of a commercial business can be considered a very profitable venture, a fact that is irrelevant to the protection racketeers.

The practice of *kupona* was devised in order to cover the hidden cost of business demanded by the ‘protection racket’; this distinction separates it from ordinary fraud and classifies it as a functional practice. The practice is a way of generating additional profit that otherwise would prove impossible for a business that is unable to sustain itself financially through commercial demands alone. As it is a case of tax evasion, *kupona* is similar in nature to traditional tax evasion schemes (Iakovlev 1999), which require certain criteria to be fulfilled. The common features are that: (1) the transaction is completed in cash (currency); (2) traditional tax evasion is common for self-employed people or small, non-corporate businesses; (3) part of the operation of the business with customers is illegal; (4) tax evasion is strongly linked to underreporting total revenue in order to conceal the profits of the business before tax; and (5) all transactions are real (Iakovlev 1999: 6).

While Kosovo has a high number of credit and debit card users, the majority of transactions are still cash-based due to the limited adoption of point-of-sale terminals necessary to process credit and debit card transactions. This is especially marked in the services sector of the economy, which is mainly comprised of small, non-corporate businesses. In 2015, the overall value of all transactions in Kosovo amounted to €3.6 billion, of which only €18 million were through card transactions; the rest consisted of payments in cash (Central Bank of the Republic of Kosovo 2016). This allows a widespread informal economy to exist in the country, containing within it a large number of different informal practices, including that of *kupona*. As of 2014, the informal economy is estimated to represent 30 to 35 per cent of the country’s $7.8 billion gross domestic product (GDP) – this amounts to a total of approximately $2.5 billion (European Commission 2014).

Currently, VAT represents 49 per cent of Kosovo’s tax revenue (European Commission 2014), making it one of the primary sources of
income for the government. It can be assumed (although it is in no way corroborated), that VAT evasion generates the majority of the estimated wealth of the informal economy through practices like kupona. It is likely that such practices make up a large percentage of the informal economy. Not only do black market transactions form a large part of the informal economy, but also the simplicity of the practice makes it widespread and functional in a struggling economy.

Non-cash transactions are generally immune to the basic versions of tax evasion, such as the kupona practice, because the records created by the transactions are kept by third parties. Tax evasion on cash transactions, on the other hand, is elusive, especially in cases where indirect taxation is involved and in instances where tax is collected by the business, such as VAT. For the government to collect indirect taxes themselves and in essence transform them into direct taxes would require access to all transaction records, which would be costly in terms of implementation, as well as in terms of control and general supervision (Wan 2010). Given the unlikelihood of such a system being adopted, asymmetrical information in regards to indirect taxes will always exist between the governmental tax authorities and businesses, with the asymmetry favouring the latter.

The current monitoring system for indirect tax collection is through random tax inspections at the place of business. As a result of these random tax inspections, the kupona practice has shown certain flexibilities in its application that allow successful evasion of these formal inquiries. During the tax inspectors’ normal working hours in the day, when activity in commercial businesses such as restaurants or cafés is usually slow, it is more difficult for businesses to avoid invoicing transactions or printing receipts. In order to circumvent this obstacle, transactions are invoiced and given a receipt, but show only one item on an order containing multiple goods. During peak hours of business, the sheer number of customers and orders provide the business with enough cover to avoid the need to resort to subtle deception. Furthermore, the night hours when business is at its peak in restaurants and cafés are outside the working hours of the tax inspectors.

The implications of the kupona practice and its effect on society is evident by its development as a functional form of ambivalence and a survival practice. It is a product of the economic environment of a country facing a growing trade imbalance, high unemployment and a low average wage – factors exacerbated by the corruption from the informal economy that permeates throughout the state structure.
The Latvian terms *alga aploksne* (‘salary in an envelope’) and *aplokšnu alga* (‘envelope wage’) refer to an undeclared part of a regular wage, concealed to allow the employer to evade a proportion of compulsory labour and social security taxes. The term derives from the widespread practice of handing over such salaries in envelopes, rather than by bank transfer or in an open, over-the-counter manner. This practice can be seen as part of a wider family of practices whereby the income of an employee or contractor is completely or partly concealed from the authorities (for instance, moonlighting, tips in service industries or outright illegal employment – see Fudge et al. 2012 for a detailed description of varied informal work practices).

*Alga aploksne* refers mostly to the regular but officially unrecorded payments of salary that is paid alongside official payments. Part of the salary is indicated in the employment contract, signed for and officially reported. The other part of the salary does not feature in official books, is paid unofficially and concealed from tax authorities. The ratio of the officially declared wage versus the *alga aploksne* is estimated to be 50 per cent in Latvia (Williams 2013: 331). The official part of the salary is often levelled down to the minimum wage that is required by law (360 EUR per month in 2015). The money is paid by the official employer, thus making it different from various tipping arrangements (e.g. in bars or hotels, see O’Connor 1971) and illegal private entrepreneurship where the money is paid directly by the customer and on an irregular basis (e.g. ‘cash in hand’ in the UK (see 6.1 in this volume) and various other countries).

Both the employer and employees often perceive *alga aploksne* as mutually beneficial. The employer has the opportunity to attract workforce at less expense, while employees receive more cash immediately and directly, rather than through benefits redistributed by the state. The difference between the formally and informally paid salary is normally discussed in job negotiations, so it is clear what will be received ‘on paper’ and what ‘in hand’ (*uz rokas*).

Using the system of *alga aploksne* does also incur drawbacks for both employer and employee. In addition to the legal consequences, the employer needs to maintain a constant supply of ready cash that is not accounted for in the official books. This requires careful manipulation of the electronic cash register and/or dealing with criminals who provide services of small-scale money laundering for a fee. For the employee *alga
aploksnē means significantly reduced social benefits, such as job security and pensions.

A survey by Putniņš and Sauka concludes that in the period 2009–14 the percentage of underreported salaries in the Baltic states fluctuated from 35.5 (in Latvia, 2010) to as low as 12.2 (in Lithuania, 2014). In Latvia and Lithuania the underreported part amounts to 11–30 per cent of the total salary while in Estonia the most frequently used proportion falls within the interval of 1–10 per cent. Only just over 10 per cent of the surveyed company representatives in Estonia and Latvia and 24 per cent in Lithuania declare that they pay all social taxes as required by law (Putniņš and Sauka 2015: 16).

The alga aploksnē payments in Latvia are so omnipresent and socially acceptable that credit institutions are reported to have accepted declarations of informal income as proof of the creditworthiness of clients. Allegedly such banking practices were widespread before the economic crisis of 2008 and credits issued on the basis of such information contributed to the economic meltdown. Banks supposedly learnt their lesson and stopped the practice, but one case was reported as late as 2015 (LETA 2015), though the bank officially denied the practice. The practice of alga aploksnē is only a semi-open secret when it comes to identifying concrete employers who use it. As a social practice, though, it is widely acknowledged by the public, representatives of government and non-governmental organisations, in particular when tax policies are discussed.

Practices similar to alga aploksnē can be observed elsewhere in the world. ‘Envelope wages’ are well-researched in the European Union (Woolfson 2007; Williams 2008, 2009a, 2009b, 2013). A 2007 Eurobarometer survey indicates that envelope wages can be found throughout the European Union (EU); however, the practice is most widespread in countries of Central and Eastern Europe and least widespread in Scandinavia. While in Central and Eastern Europe 10 per cent of employees have received a wage in an envelope, it is only 4 per cent in Southern Europe and 2 per cent in Western Europe and Nordic countries (Williams 2013: 330). About 50 per cent of all envelope wage payments in the EU happen in five countries: Bulgaria, Latvia, Lithuania Poland, Romania (Williams 2013: 330). Moreover it is possible that Western European and Nordic respondents by envelope wages understood income that they earned for doing an irregular, part-time job (in contrast to East Europeans for whom it is a part of a regular job arrangement).

All neighbouring countries of Latvia have terms and practices that are virtually identical to Latvian alga aploksnē: Estonia (ümbrikupalgad),
Lithuania (alga vokeliose), Russia (zarplata v konverte), Belarus (zarplata ū kanverste). Similar terms also exist in Ukraine (zarplata v konverti), Moldova and Romania (salarıu într-un plic) and Bulgaria (pari v plik). All of these terms literally mean ‘salary in an envelope’, and refer specifically to the arrangement of concealing a given part of the regular salary (as opposed to undeclared earnings in general). Other societies may have similar practices but lack a particular term (see rad na crno, 5.24 in this volume). However, it seems that neither the term nor the practice goes beyond the area of post-socialist countries in Central and Eastern Europe (CEE) and Russia.

Alga aploksnė is a phenomenon that only developed after the dismantling of the Soviet economic system. During the Soviet period either all salary was paid according to the books or the employment was off the record altogether (hence the term ‘second economy’, see for example Grossman 1985/1992). Thus alga aploksnė has no direct precedent in the Soviet heritage. Woolfson (2007: 552), speaking of salaries in an envelope argues that the ‘informalization in the post-communist transition period … derives less from the legacy of Soviet times than from the predatory nature of the neo-liberal capitalism’. Fudge (2012) similarly argues that the recent proliferation of informal work practices in all kinds of societies is due to globalisation and deregulation stemming from neo-liberal policies. Contesting the view that traces the roots of informality to features of Soviet citizenship, Sedlenieks (2013) and Mühlfried (2014) argue that the tendency of citizens to treat rules lightly and avoid regulations is not a result of Soviet heritage but an adaptation of citizens to the instability of state policies over a much longer period. The aforementioned Eurobarometer survey indicates that in Western Europe and Nordic countries envelope wages are paid almost exclusively for jobs performed outside one’s regular employment, similar to what used to be the case in Central and East European countries during the socialist period, while currently alga aploksnė and similar practices in CEE are part of the regular employment.

According to quantitative comparative research, the spread of envelope wages negatively correlates with the level of regulation. Testing the hypothesis of correlation with over-regulation/under-regulation, Colin Williams finds that the practice is least widespread in countries with strong welfare systems and effective redistribution of wealth, whereas in countries that have a more neoliberal orientation with less state intervention in the labour market and weaker redistribution, envelope wages are more prevalent (Williams 2013: 325). The qualitative evidence suggests that motivation to participate in the system of alga aploksnė
is linked (apart from monetary gains) to the lack of trust in state social security systems and the perception that tax money is often wasted by corrupt officials and politicians (Sedlenieks 2003: 45). Accordingly, alga avloksnē and related practices become rationalised and reproduced at the expense of paying taxes to an unreliable state.

6.28 **Vzaimozachety** (Russia)
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*Vzaimnyi zachet* (also known as *vzaimozachety*, *zachetnaya skhema* and *zachet vzaimnykh trebovanii*) is a Russian term meaning ‘bilateral exchange in kind’. When used in the plural (*vzaimnye zachety*), it refers to a specific type of inter-firm exchange, whereby a commodity transferred to a partner is paid for by non-monetary means. In this sense, *vzaimnye zachety* are part of a wider concept of transactions-in-kind described in Russian as *barter*, which in turn is derived from the English ‘barter’, meaning the exchange of goods or services for other goods or services without the use of money.

Non-monetary transactions are commonplace in international trade. Under the Soviet economic system, such transactions enabled socialist states such as the Soviet Union, which lacked access to foreign-currency reserves, to pay for imported goods. Trade between the member-states of the Soviet-led Council for Mutual Economic Assistance (COMECON), for example, was mostly handled through countertrade or bilateral clearing agreements. For instance, the German Democratic Republic supplied the USSR with machinery and in exchange the USSR supplied it with oil.

Following the collapse of the USSR, *vzaimnye zachety* came in the 1990s to be seen by Russian economists as a specific feature of domestic barter in the context of a dire financial and monetary crisis during which money surrogates and inter-enterprise arrears were widespread (Yakovlev 1999). Massive arrears in wages, pensions and welfare benefits paralysed the economy at every level. Demonetisation and the disrupted role of money as a universal means of exchange made *vzaimnye zachety* an alternative means of enabling goods to circulate in the economy (Marin 2002).

While *vzaimnye zachety* took many different forms, two major types may be identified. The first denoted successive bilateral exchanges, whereby one original entity exchanged goods or money surrogates in
successive bilateral transactions with several partners until the desired commodity was attained. This strategy allowed holders of low-value goods, who were excluded from the hard-money circuit, to distribute and sell their goods on alternative circuits, using non-monetary means of exchange (Yakovlev 2000). The second denoted a complex chain of exchanges, mixing commodity transfers and debt schemes, whereby party A transferred a commodity to party B, who thereby became indebted to party A. The commodity was then transferred to party C, who in turn became indebted to party B, and so on. The chain might involve five, six or even more parties in debt and delayed payment chains (Ledeneva and Seabright 2000). While the first type described above referred to demonetisation, the second often involved tax evasion and the bypassing of legal regulations. In the illegal and criminal transactions described by many experts as Russia’s ‘virtual economy’ (Gaddy and Ickes 1998; Tompson 1999; Woodruff 1999a), intermediate firms were often artificially bankrupted; this meant that, while the original supplier went unpaid, the final recipient took possession of a commodity that had no owner needing to be paid for it.

High negative moral value was accordingly attributed to vzaimnye zachety by economists, officials and experts from international economic and financial organisations – such as the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development – which monitored the transition of the former socialist countries to a market-based economy. In his annual address to the Russian parliament in 1998, President Boris Yeltsin declared that “The Russian market is still cluttered with barter. It is in the stranglehold of mutual debt defaults; enterprises live on debt and have no intention of repaying their debts … This practice cannot be continued. It is useless and dangerous to try to cheat the economy’ (Yeltsin 1998).

Vzaimnye zachety have been criticised by economists and officials on several grounds. The first concerns the discrepancy between barter and economic norms in modern capitalism, while the second relates to a loophole in the legal conditions of exchange. Anthropologists have also noted the phenomenon of ‘shadow barter’, that is, the close association between the ingenious schemes of barter exchanges justified by economic necessity and the illegal workings of the shadow economy (Ledeneva 2000). The dramatic rise of the practice of barter in Russia in the 1990s surprised Russian observers as well as many experts from international organisations (Commander and Mumssen 1998; Commander et al. 2000). Up until then, the socialist economy had entailed fixed prices that generated shortages, informal exchanges and a lack of competitiveness. In 1991,
when Russia began its transition to a market economy, prices started fluctuating, thereby reflecting the volatile desirability of goods. Pro-market advocates see the monetisation of transactions in the economy as encouraging efficiency, favouring the emergence of interest-based behaviour and, more generally, paving the way for further structural changes. This was not, however, the case in Russia. Far from declining as expected in the new market conditions, the share of barter in commodity exchanges grew dramatically. In 1993, barter was estimated to account for a mere 9 per cent of the volume of industrial sales in Russia. Within three years, however, its share nearly quadrupled, reaching 35 per cent in 1996, 42 per cent in 1997 and 51 per cent in 1998 (Aukutsionek 2001; Russian Economic Barometer 2001).

The financial crisis of August 1998, the sharp devaluation of the rouble and Russia’s default on its external debt led however to a dramatic drop in barter, which in 2001 and 2002 fell to a low of 16 per cent of industrial sales (Russian Economic Barometer 2003). Following the 1998 crisis, the Russian government tasked the State Statistics Committee with measuring the various means of transaction used by businesses. Their findings revealed a steady decline in barter. In 1999, 47.4 per cent of all transactions were based on non-monetary means of payment, 24.5 per cent of which were vzaimnye zachet. In 2000, barter accounted for only 30.2 per cent of all transactions, 15.5 per cent of which were vzaimnye zachety. The massive devaluation of the rouble in 1998 had reduced arrears in the economy and remonetised transactions. Russia’s competitiveness increased, easing exports and reducing the flow of imports. In the 2000s, a process of legislation and accounting regulation effectively banned barter in Russia, leaving only bilateral exchanges in kind (Efimova 1997; Dufy 2011).

Classic economic anthropology highlights the moral value of transactions (Parry and Bloch 1989; Humphrey and Hugh-Jones 1992). This provides a basis with which to explain the negative appraisal in relation to the norms and models implemented by society. The British economist William Stanley Jevons defined barter as a situation requiring a ‘double coincidence of wants’ (Jevons 1875). In support of his argument, multiple testimonies collected in fieldwork in Russia in the early 2000s depicted barter as a less than optimal situation, requiring additional work to negotiate which commodities were to be accepted as means of payment. Furthermore, barter generated an imbalance between parties, uncertainty as to the quality of the goods received, and confusion over the return deadline (Dufy 2008). As shown by the history of the rise and fall of vzaimnye zachety, the definition of transactions is at the heart of
economic and social design. For, as the cornerstones are being laid in the burgeoning market, these definitions make a clear-cut distinction between those types of transactions that are considered desirable, and those that are not.

6.29 Otkat (Russia)
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Otkat is a colloquial term used to describe a form of corruption in Russia. It literally means ‘rolling back’ and is the equivalent of the English term ‘kickback’. Otkat is the diversion of part of the money allocated for a purchase to the person responsible for the purchase, for example, to an employee of a state administration or a company. As the result of collusion between a person in charge of a purchase and a supplier, otkat implies embezzlement and results in the overpricing of goods and services. Otkat emerged as a practice in the 1990s following the collapse of the Soviet Union, and proliferated in Russia during the 2000s as the state’s role in the economy expanded, resulting in the creation of state corporations. The practice grew further as a result of the general economic upturn and the respective increase in resources associated with the oil boom.

Otkat is widely used in public procurement: the state allows itself to be overcharged, and the bureaucrats responsible for the purchase pocket the difference between the actual price and the stated price. As a result, part of the public funds gets diverted for private gain. According to the Russian law on public procurement, state purchases must be conducted via transparent competitive tenders according to the principle of obtaining the ‘best quality for the lowest price’. However, in reality, numerous techniques are employed to evade the procedure, thus undermining honest competition and allowing the practice of otkat to flourish. During the tender process a company affiliated to the bureaucrat often makes the winning bid. In 2013, the Russian Court of Auditors concluded that 70 per cent of the largest tenders were awarded without any competitive process (Zamakhina 2013). Moreover, otkat is a widespread practice in the procurement procedures of big state-owned conglomerates and by monopolies. Similarly, the suppliers of goods and services involved in the kickback schemes may be affiliated to the conglomerate and, in some instances, have been identified as its (shell) subsidiary, opaque in terms of ownership and registration.
As a result of an *otkat* scheme, the resources of the state or a state-owned company get embezzled: the contractor returns a certain percentage of the deal to the client – in most cases, in cash. Unaccounted ‘black cash’ is generated through encashment (*obnalichivanie*) – an illicit informal practice that involves bogus companies, often affiliated with banks (Yakovlev 2001: 38f.). For a certain ‘fee’ (around 7 per cent of the total sum) these sham companies generate both the cash and the respective paperwork necessary to cover up the illicit scheme. In some cases, *otkat* takes more sophisticated forms: rather than a straightforward cash payment, money is transferred for imaginary consultancy work or ‘market research’ to a shell company owned by the person responsible for making the order.

*Otkat* is also widespread in Russian inter-business relations, where it causes a typical agency problem as rank and file managers cheat the company by pocketing some of its resources. For example, managers of purchasing departments buy overpriced goods or services, charging the supplier an illicit ‘commission’. In some sectors, such as corporate insurance, *otkat* is widely used to make corporate clients pay higher premiums than the market price (Grigorieva 2007). As a rule, *otkat* is negotiated clandestinely between the representatives of the two firms in advance and paid as a ‘gratitude fee’ by the contractor to the person representing the purchasing company. Vague language is used during *otkat* negotiations (the Russian internet in fact is full of ‘instructions’ for using the practice): an *otkat*-giver might suggest ‘being ready to make concessions’, ‘making a very good offer’, ‘giving you a personal discount’ or ‘paying particular attention to your needs, whereby “you” is deliberately used ambiguously to refer both to the company and to the person in charge’ (Lonkila 2011: 66f.).

Along with other forms of corruption, *otkat* is openly acknowledged as a problem by the Russian leadership. For example, in his 2010 annual address, President Medvedev condemned the embezzlement of state funds, including the practice of *otkat*, and estimated losses at 1 trillion roubles annually, which corresponds to about 15 per cent of state purchases (Medvedev 2010). Similarly, President Putin regularly declares the fight against corruption a priority, and has acknowledged that *otkat*, as a percentage of contract volume, reached 50 per cent of public procurement contracts (NTV 2013). *Otkat* is also a widely discussed topic in the Russian media, deemed to negatively affect both business and public procurement. Using the Integrum database, Markku Lonkila examined the frequency of the term ‘*otkat*’ in printed media in Russia since the early 1990s. It was found that the term became more commonly used during
the 2000s (Lonkila 2011: 68). On the Internet, websites and blogs dedicated to the techniques, advantages and disadvantages of otkat schemes abound. The term otkat sometimes seems to be used in a broader sense in these sources, and is often (falsely) used as a synonym for bribe, if the size of the bribe is fixed as a percentage of a deal. However, as a form of corruption, otkat differs from bribery. While a bribe represents an illicit money flow to agent A from agent B, otkat involves a formal legal payment from a budget overseen by agent A (but not owned by him personally) to agent B, and a subsequent illegal, private repayment of part of that sum back to agent A. Therefore, for example, a payment received by a supermarket manager from a wine supplier for displaying the produce prominently is a bribe rather than an otkat. But if the supermarket manager colludes with the supplier of wine and receives in return an informal ‘personal bonus’ in cash of some 10 per cent of the ‘on-paper’ purchase sum, the correct name for the informal practice is otkat.

Another practice related to otkat is raspil (literally meaning ‘sawing through’), which refers to the theft of budget money through hugely overpriced state purchases, with those in charge of procurement ‘sawing off’ a cut of the money for themselves and disguising it through creative accounting (Ledeneva 2013: 277). Raspil is a broader and simpler concept than otkat as it implies only one agent (the bureaucrat who embezzles state funds from a public project), whereas otkat necessarily involves two agents working in different organisations.

Otkat has several adverse implications for the economy and society. In public procurement, the spread of otkat implies private appropriation of public funds: as a result, the total amount expended for public purpose diminishes (Bayley 1966: 725). Interestingly, although business-to-business otkat falls under article 204 of the Criminal Code as a ‘commercial bribe’, the practice of otkat in public procurement is not directly specified in the legislation, which makes it hard to prosecute corrupt bureaucrats. Another adverse effect of otkat is inflated prices: goods, services and equipment procured with otkat become more expensive than they would have been without it. The consumer often ends up paying an excessive price. Examples include increased tariffs for monopoly services, such as electricity, or having to pay inflated prices for wine in a supermarket. Moreover, by defrauding fair competition and promoting businesses affiliated with the bureaucracy, otkat disadvantages outsiders, especially smaller firms. The 2005/6 reform of the law on public procurement in Russia required an increase in the share of state purchases to be made from small and medium-sized firms. However, according to surveys by the Higher School of Economics, the reforms have had little
Finally, *okat* can result in the provider cutting corners or sacrificing quality in order to finance the *okat* payment, which in itself can be more costly for society in the long run. For example, in the case of a company using *okat* to secure a road building contract, lower quality materials may be used, with the result that the road will have to be repaired more often and may even result in accidents.

*Otkat* is typically measured as a percentage of the contract volume. Researching the scope and average size of *okat* is difficult given the informal nature of the practice; however, several methods may be used. The first method is to establish the use of the practice through a business survey: company managers are asked about the occurrence of kickbacks in their business practice. For example, surveys by the Higher School of Economics show that the share of firms encountering *okat* increased between 2005 and 2009 from 34 to 40 per cent (Yakovlev 2009). The World Bank’s business surveys found that between 2008 and 2011 the average sum of *okat* increased from 11 to 15 per cent of the contract volume (BEEPS 2013: 7).

Another method used to research the scope of *okat* in the sphere of public procurement is estimation based on expert opinion, used in conjunction with a comparison of market prices with actual expenditure. For example, the head of the National Anticorruption Committee, Kirill Kabanov, estimates the scope of *okat* in public procurement at 30–40 per cent of the contract volume, while in particularly non-transparent cases, such as purchases made by the Ministry of Defence, it is estimated to reach at least 60 per cent (Makarov 2011; see Ledeneva 2013: 100f.). According to the late Boris Nemtsov, at least half of the $51 billion USD cost of the notoriously expensive 2014 Winter Olympic Games in Sochi can be attributed to corruption, and in particular to *okat* (Nemtsov 2013). Many lucrative contracts for building the Olympic facilities were won by close friends and associates of President Putin: for example, his friend Arkady Rotenberg alone procured construction contracts worth USD7 billion – more than the entire budget of the 2010 Vancouver Olympics (Arkhipov and Meyer 2013).

Finally, in-depth interviews with entrepreneurs may be useful for gaining a better understanding of specific *okat* schemes and their mechanisms. Interviews conducted by the author with small and medium-sized entrepreneurs in Russia revealed two *okat* scenarios: some contractors were paid from lavishly inflated public procurement budgets and thus had no difficulty in completing the work while also meeting the requirements of *okat*; others were forced to cope with budget...
Market

cuts and struggled to stay profitable as a result of paying *otkat*. In one instance, a company in St Petersburg won a tender for building a road. The successful bid was for 18 million roubles; however, the state officials responsible for the project offered to pay 28 million roubles, with specific instructions to the company that ‘eight [million] you will bring back – in cash. We are not interested in how you are going to do the “encashment” (*obnalichivanie*), but all the documents need to be waterproof!’ (author interview 2014). Conversely, a Moscow construction company that had been undertaking works for the upper chamber of the Russian Parliament for years reported difficulties in dealing with budget cuts: ‘A new team arrived, new guys, a hungry lot. They summoned all contractors one by one: “Roll back 20 per cent”. They said it in plain text. The budgets are being slashed. But we want to have a profit’ (author interview 2014). Filing a formal complaint was not an option, as it would have resulted in the company being ‘blacklisted’ and being debarred from future bid-making opportunities.

*Otkat* remains an under-researched practice both because of its informal character and due to the involvement of state bureaucracy. However, it has implications for the political economy as a whole: by participating in *otkat* schemes, firms not only need to generate illicit black cash, but they also have to deal with an inevitable mismatch between the actual and ‘on-paper’ transactions, which in turn requires further illicit operations and concealment techniques. Viewed from this perspective, *otkat* deserves more scholarly attention, as its prevalence may be key to understanding the endurance of the shadow economy in Russia and in other emerging economies.

6.30 *Potemkin villages* (Russia)
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A Potemkin village is a simulation: a façade meant to fool the viewer into thinking that he or she is seeing the real thing. The concept is used in the Russian-speaking world as well as in English and in other languages. Potemkin village belongs to a genus of phenomena that proliferate in post-Soviet space. Those phenomena describe gaps between external appearances and underlying realities. In the Russian language, the genus includes species such as *pokazukha* (window dressing, see Radio Maiak 2010; Pisano 2014), *imitatsiia* (mimicry – a loan word from English, in contrast to the Russian *podrazhenie*, or imitation), *feik* (doctored news
images or reports), as well as a rich vocabulary describing various sub-species of shell companies: *roga i kopyta* (Ilf and Petrov 1998/1931), *firma-odnodnevka, fonar*, *pomoika, ezhik* and many others.

Potemkin villages bear a family resemblance to the phantasms of capitalist reproduction that Baudrillard (1985) described as simulacra (Epstein 1995), but they arguably express a different ontological orientation. Some understand Potemkin villages as imaginaries rather than illusions (Clowes 1995; Seifrid 2001). In such interpretations, Potemkin villages are aspirational, rather than deceptive, and they are only meaningful insofar as their referent exists somewhere in the world. In Russia, Seifrid writes, the ‘prolific construction of simulacra’ is ‘not a sham culture suspended over reality’s absence, but one energetically cycling, responding to, and transforming into hard cultural currency the fabricated signs that it appropriates, magpie-like, from abroad – sustained by a hope in the referent’s eventual advent’ (Seifrid 2001: 214).

The original Potemkin villages were said to be eighteenth-century façades constructed by Prince Potemkin to impress Empress Catherine II as she traveled in Crimea following its annexation from the Ottoman Empire. Historians now agree that this legend is likely an exaggeration (Panchenko 1999). But debates about the veracity of the original story crystallise frictions embodied in the concept: Where should the lines be drawn between artifice and embellishment, and between embellishment and mere decoration? Wherein lies the distinction between deception and aspiration? And where artifice is persuasive, how do we know what it is that we are seeing? These questions have become particularly salient during the current period, in which Potemkin villages and related concepts are frequently used to describe political institutions, including electoral practices and elite-led and elite-captured social movements (Wilson 2005; Pisano 2010; Radnitz 2012; Gabowitsch 2015). Increasingly, politicians and others across the political spectrum refer to Potemkin villages, or some variation on the concept, to accuse their opponents of inauthenticity (Grigor’ev 2007; Orbán 2014).

Potemkin villages appear in numerous guises in nineteenth- and twentieth-century literature, as well as in Soviet-era political economy. In the nineteenth-century literary and political imagination, façade and theatrical tropes surface most famously in Gogol’s *Revisor* (1836) and with greatest present-day resonance in *Mertvye dushi* (1842), in which Gogol’s protagonist Chichikov schemes to raise money by purchasing
recently deceased serfs (upon whose head landowners continued to owe taxes) and using their names as collateral. Writing in reaction to liberalisation later in the century, Aksakov (1863) bemoaned the ubiquity of mere appearances. Among the most infamous statements about Potemkin villages are the observations of the Marquis de Custine, who described Russia as an ‘empire of catalogues’ (1893).

Soviet-era Potemkin villages included performances of economic development: presentations of model farms, factories, schools and other institutions were staples of visits by delegations from Moscow and abroad. In 1988, Mikhail Zadornov published a widely read satirical essay about the practice. Post-Soviet literature likewise contains numerous references to a variety of types of Potemkin village. For example, in the world of Viktor Pelevin’s Omon Ra (1992), humans dress as game to entertain hunting parties of party elite and millions of political prisoners simultaneously jump up and down in order to simulate tests of nuclear warheads.

The concept plays a central role in The Post-Soviet Potemkin Village (Pisano 2008), which analyses the political economy of villages along the present day Russia-Ukraine border. In it, Jessica Pisano drew on long-term field research in rural communities to show how post-Soviet privatisation of land in Russia and Ukraine produced widespread rural dispossession and consolidation of state and corporate control, all concealed by a paper record of rural ownership. In contrast to many other examples, Potemkin villages in the post-Soviet countryside were not entirely intentional charades. Instead, they were produced by a confluence of economic policy choices at the national level and local actors’ responses to those choices.

Beyond the Russian-speaking world, variations on Potemkin villages can be found in most contemporary polities and in many vernaculars (e.g. Goffman 1959; Debord 1992/1967). These ‘experience near concepts’ (Geertz 1985) most often are used to describe political phenomena. In Lusophone Africa and Brazil, people speak of laws that are ‘só para inglês ver’ (‘just for the English to see’), originally in reference to nineteenth-century pro-forma Portuguese efforts to stamp out the slave trade in the face of British criticism (Penvenne 2000; Ashcroft 2015). In Francophone Africa, Emmanuel Terray (1986) writes of la véranda (front) and le climatiseur (air-conditioner) (1986). Journalism and scholarly research in and about Latin America has long referred to the ‘democratic façade’ (fachada democrática). And in politics in the United States, ‘Astroturf’ lobbyists pay PR firms to create campaigns that resemble grassroots political movements (Walker 2014).
‘Astroturfing’ refers to the practice of artificially creating the impression of widespread public support for a policy, cause, organisation, individual or product, where little or no support in fact exists. Such practices exist globally, but the term itself predominates in English-language political and media discourse, particularly in the USA and UK. Etymologically, the term derives from AstroTurf, a brand of artificial turf that, when spelt in lower case, is commonly used to refer to artificial grass in general. The metaphorical adaption of the term is commonly attributed to US Senator Lloyd Bentsen, who in 1985 complained about the large volume of letters he received, ostensibly from members of the public, which he viewed as part of a hidden organised campaign by insurance companies to protect their interests. ‘A fellow from Texas can tell the difference between grass-roots and astroturf’, Bentsen stated (Sager 2009). The concept of ‘astro-turfing’ is thus intrinsically bound up with the concepts of ‘grassroots support’ and ‘grassroots activity’. ‘Grassroots activity’ refers to coordinated political or social activity spontaneously generated and organised from the ‘bottom up’ by ordinary citizens. The use of the term ‘grassroots’ in this sense can be traced back to the US Senator Albert Jeremiah Beverege, who in 1912 referred to the Progressive Party as the party that ‘has come from the grass roots. It has grown from the soil of people’s hard necessities’ (Samoilenko 2014: 189). In the case of astroturfing, the connotation is that genuine grassroots support does not exist but has been artificially replicated, just as astroturf replicates real grass.

A typical pre-Internet form of astroturfing was paid-for letter writing campaigns, such as that referred to by Bentsen when he coined the term. Such campaigns were used by corporate clients as a lobbying tool, with the aim of convincing political representatives that their cause enjoyed greater public support than was in fact the case (Lyon and Maxwell 2004: 563–4). However, the growth of Internet use, in particular social media and crowdsourcing platforms, has dramatically increased the range and scope of astroturfing behaviours. The cloak of anonymity makes the Internet a highly effective platform for astroturfing, while the growing importance of online and crowdsourced information provides a powerful incentive for engaging in it.
The core type of deception involved in astroturfing is identity-based deceit – a false representation of the identity of the author or supporter. However, some forms of astroturfing also involve message-based deceit – the delivery of false or misleading information (Zhang et al. 2013: 3). The latter is the case, for example, in fake product reviews and other forms of disinformation. Astroturfing involving message-based deceit is often employed in a corporate context, for example, to generate positive consumer reviews for one’s own product or service, or to generate negative reviews for that of a rival. One recent study found that nearly one in five reviews on the business review website Yelp were suspected of being fake (Luca and Zervas 2016). Some major companies use sophisticated personal management software to create entire astroturfing ‘armies’ of authentic-looking but nevertheless fake social media accounts, which can be deployed as and when needed (Bienkov 2012).

Astroturfing has been the subject of increasing political and media attention in the twenty-first century, as the growth of Internet and social media usage has led to these platforms being exploited by governments and their supporters as tools of information warfare. Some national governments are alleged to employ large armies of hidden paid agents to troll online discussion forums with pro-government views. For example, the Chinese state employs an army of paid online commentators (dubbed the ‘50-cent army’ after the amount they are supposedly paid per post) to spread pro-regime propaganda on online forums (Han 2015). State-sponsored trolling is by no means confined to authoritarian regimes, but is also employed by Western democracies. For example, the United States Central Command (Centcom), which oversees US armed operations in the Middle East and Central Asia, has awarded contracts to companies to develop persona management software that will allow its military personnel to secretly propagate pro-American propaganda on social media sites via fake online personas (Fielding and Cobain 2011).

Another form of astroturfing that has received increased attention in recent years is the phenomenon of ‘sock puppeting’. In its literal meaning, a sock puppet is a simple form of puppet made by wearing a sock on one’s hand. The gap between fingers and thumb give the impression of a mouth, and the addition of simple details like eyes make the sock resemble a face. In political and media discourse, a ‘sock puppet’ refers to an organisation that has the façade of independence, but whose existence is in fact dependent on often concealed funding from another source, thus compromising its independence. The term can also refer to an author who uses a fake persona, often online, to positively review or discuss their own work.
Sock puppets typically champion policies that do not enjoy significant public support, but that are favoured by a government ministry or bureaucratic department. The government can then justify the adoption of these policies by claiming that they are responding to external pressure from civil society. This is by no means a new phenomenon: the 1960s and 1970s saw the rise of single-issue health pressure groups in the UK – ostensibly independent but funded by the government – campaigning on such issues as smoking and alcohol (Berridge 2007: 164). For example, the foundation of the anti-tobacco lobby group Action on Smoking and Health (ASH) in 1971 was actively encouraged by the Department of Health, which also provided the bulk of its funding in its first two decades. ASH provided a source of external pressure for policies the Department of Health itself favoured, and in practice they often worked collaboratively (Berridge 2007: 167–77). At the other end of the spectrum, tobacco companies have responded by creating sock puppets of their own to counter-lobby. For example, in 1993 several major tobacco companies funded the foundation of the National Smokers Alliance (NSA), which purported to be a grassroots organisation representing smokers’ rights (Givel 2007).

In the UK, the charitable sector as a whole has been criticised for becoming increasingly dependent on state funding, and thus risking turning itself into an entire sector of sock puppets (Snowdon 2012). Sock puppeting has even been criticised from within the state itself. The UK’s Department for Communities and Local Government (DCLG) called for other government departments to ‘cease funding “sock puppets” and “fake charities”’ in order to reduce wasteful government spending. The DCLG stated: ‘Many pressure groups – which do not deliver services or help the vulnerable – are now funded by state bodies. In turn, these nominally “independent” groups lobby and call for more state regulation and more state funding’ (DCLG 2012: 11).

It is possible that, with the increased trend towards Freedom of Information (FOI) legislation in Western polities, sock puppeting will become increasingly subject to public exposure as covert funding streams are revealed. However, whether exposure alone is sufficient to curb such an entrenched practice is another matter.

Political campaigns in the future will be progressively threatened by online astroturfing in the form of social bots and other imposters posing as autonomous individuals on the Internet, with the intent of promoting a specific agenda. As astroturfing technology develops it is becoming increasingly difficult to distinguish fake personas from real individuals (Bienkov 2012), which poses a threat to open democratic debate as well as the utility of crowdsourcing platforms such as consumer review
websites. There is a very real danger, in both politics and business, that participants will be forced to spend money on astroturfing just to remain competitive with their rivals. In game theory terminology astroturfing is thus a form of non-optimal behaviour known as a ‘prisoner’s dilemma’, since money is sunk on rival disinformation that effectively cancels out both sides. It also represents a ‘social loss’ (Simmons 2011: 187–8), as resources are spent on non-productive uses rather than those that generate wealth or add value.

6.32 Dzhinsa (Russia)
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Dzhinsa (derived from the English word ‘jeans’) is a term used in Russian journalistic jargon to refer to paid-for material presented in the media as ordinary news. It is a form of ‘hidden advertising’, a practice that is both cheaper for advertisers and lucrative for journalists. According to Irina Petrovskaya, a television journalist in Moscow, this term was first used in the 1990s when a firm selling jeans in Moscow asked journalists from the television station Pervyi Kanal (‘First Channel’) to promote its activities. It paid the journalists ‘in kind’ with jeans. This kind of practice has been known as dzhinsa ever since (Petrovskaya 2005).

The term is widespread in journalists’ milieu in Russia – as shown by the numerous press articles on the practice – but the term is not widely recognised by the general public. The term is also used in other former Soviet republics, for example, by Ukrainian journalists (Iwanski 2012). The verbal form dzhinsit’ expresses the act of receiving money for the publication of paid materials in the media. It is one of a range of informal practices known collectively as chernyi piar (literally ‘black PR’) or chernukha, which developed after the fall of the Soviet Union (Ledeneva 2006; see chernukha, 8.5 in this volume). Dzhinsa can be used as a tool to both promote (also known as zakazukha), or to discredit (see kompromat, 8.4 in this volume) (Iwanski 2012). Academic works on the Russian media make little reference to dzhinsa, despite the term’s common use in journalistic circles. Lack of sources makes empirical analysis difficult. Journalists speak of it as a widespread phenomenon, but are reluctant to provide concrete details about it, such as information about prices, frequency and the actors involved. Nevertheless, Koltsova (2006) succeeded in gathering and analysing data about dzhinsa in the Russian media at the beginning of the 2000s.
In Russia, the emergence of *dzhinsa* is intimately linked with the marketisation of economic relations in the media. It results from the commodification of media products, which began in the late 1980s. The practice of publishing *dzhinsa* developed in the 1990s, during the economic reforms of the ‘shock therapy’ period. It allowed newly privatised firms to promote their products and work in a novel way, via journalistic articles. At the same time, the use of *dzhinsa* also came to be of great significance in the political sphere. From the early 1990s, politicians in their election campaigns used public relations (PR) strategies based on the publication of covert political advertisements in the media. The privatisation of the media was the catalyst for this marketisation of journalism. The lack

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*Figure 6.32.1* Moscow in April 2016.  
Source: Author. © Françoise Daucé.
of resistance by journalists to *dzhinsa* was the result of economic difficulties encountered in the media business. As Australian scholar Brian McNair noted, during the 1990s, ‘those who work in the Russian media have struggled for survival in an environment characterised by chronic resource shortages, political instability and the ever-present threat of criminal interference’ (McNair 2000: 69). According to Russian academic Olessia Koltsova, ‘in some extremely badly off publications, journalists lived almost entirely on ordered articles. Thus, *dzhinsa* is a form of latent privatisation of media organisations by individual journalists’ (Koltsova 2006).

*Dzhinsa* is just one aspect of the informalities, oligarchism and ‘black PR’, which are often considered as the main features of the ‘wild 1990s’ in Russia (Ledeneva 1998). However, this practice did not cease during the 2000s. In the Russian media today *dzhinsa* remains a widespread informal practice, which is periodically denounced by journalists not involved in the practice. According to *The Insider*, an independent website, the leading Russian newspapers *Komsomolskaia Pravda*, *Izvestia* and *Rossijskaia Gazeta* continue to publish *dzhinsa* (*The Insider*, 2014). This was confirmed in 2014 by hackers from the ‘Shaltaj-Boltaj’ Internet site who published documents showing that government authorities in Moscow paid for the placement of articles in the main Russian newspapers. According to these documents, the newspaper *Izvestia* received 935,000 rubles, *Nezavisimaia Gazeta* – 760,000 rubles and *Komsomolskaia Pravda* – 645,000 rubles to promote the policies of the government (Okrest 2014). Journalists report that the development of the Internet in the 2000s has not diminished the appearance of *dzhinsa* in the media sphere and paid-for content in newspapers remains a common practice to the present day. Economic difficulties have not disappeared with the web economy; on the contrary, growing competition for financial resources between Internet sites and traditional newspapers has created further economic difficulties for journalists.

According to journalists, *dzhinsa* is a malady of post-Soviet media practices (Iwanski 2012), which goes against journalistic ideals of independence and objectivity. Russian textbooks for students in media faculties condemn the practice and underline its negative effect on the public sphere. *Dzhinsa* contributes to the decline of public trust in the media in general, and to a growth in mistrust of journalists’ work. From a political point of view, the ideal of a Habermassian public space based on civic grammars is opposed to the mercantile practices of *dzhinsa*, which pervert public debates. From an economic point of view, *dzhinsa* runs contrary to the principles of free information in a free market. The strength
of this informal practice is often considered by media scholars to be the result of the lack of judicial regulation of media activities. McNair considered that the problem in the 1990s was that ‘No effective regulation of the changing broadcast economy was put in place and transparency in financial matters was absent’ (McNair 2000: 75). At the beginning of the 2010s administrative measures to regulate dzhinsa were adopted by the Federal Directorate of the Anti-Monopoly Service of the Russian Federation, which has the power to punish media editors for the publication of PR texts not presented as advertisements. However, because of the informal practices sustaining dzhinsa and the difficulty of proving monetary exchange between a journalist and a client, the attempted clampdown on dzhinsa through federal regulation looks unlikely to succeed. Furthermore, in the context of growing political pressure on independent journalists, some fear that regulations may be abused and used as a repressive and arbitrary tool against them.

6.33 Shpargalka (Russia)
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Shpargalka (shpora) (English: crib sheet or pony, German: Spickzettel) are unauthorised materials used by students during tests and exams at school, university and other educational institutions. They may be divided into traditional and innovative.

A traditional shpargalka is a handwritten or typed sheet of paper that is small enough to be hidden in the palm of the hand, up a sleeve or in a pocket, and that can be used surreptitiously during exams. This is not easy to do, however: one needs ‘dexterity’ (snorovka) – a particular kind of social skill in itself. Students do not even need to produce their own shpargalki: paper shpargalki can be purchased in almost every bookshop and online. Many books or booklets can be cut up and used during exams.

The spread of mobile phones, smartphones and other devices has created new opportunities. Answers to likely exam questions, complex formulas and even entire essays can be uploaded onto a mobile device prior to the examination. Students only have to find a way of using their device without being detected. Alternatively, they can send a text message to an ‘assistant’, who will in turn dictate the correct answer via an earpiece hidden in the student’s hair. Some students may adapt their bodies for cheating: their nails, hands or legs might be inscribed with formulas, data and other important information. Female students may have an advantage here. This kind of body art is exotic, however. In spite of technical
progress, paper *shpargalki* remain the most popular form of cheating among Russian students.

As with other academic cheating techniques, the reaction of the professors is crucial. Do they notice it or not? Or do they pretend not to notice? As often as not, professors see all the traditional as well as the innovative and exotic cheating tools used during exams. Their reactions may differ, however: they may or may not act on what they have seen. If a professor picks up on a case of cheating, they might lower the student’s mark and/or set additional questions. The reasons for ignoring cheating vary: if a student worked very hard during a semester and attended all the lectures, this small ‘sin’ may be forgiven. Some professors may even judge ‘self-made’ *shpargalki* positively, arguing that, by summarising the course materials, the student has critically reflected on the topic.

The Russian educational system is still oriented more towards providing knowledge than fostering competencies. This trend forces students to memorise a lot of information without critically reflecting on it. In addition, students often justify their use of *shpargalki* in classes that they consider ‘unnecessary’. Science students, for example, are also required to study philosophy and sociology, while literature students must pass exams in mathematics and ecology. Knowledge of these disciplines is by no means essential to working in their chosen professions; as a result, students usually consider such courses superfluous. Using *shpargalki* during exams is also seen as less reprehensible by students who lack time to study, such as part-time students, *zaochniki*, who are usually adults with families and full-time jobs. They might not secure promotion without a higher education qualification, even though this is often viewed as a merely formal requirement. At the same time, many students believe that using *shpargalki* is immoral, and may not be proud of themselves for passing exams in such a way.

The use of *shpargalki* is widespread in Russia; many young Russians learn how to do so at school and perfect the skill during their time at university. *Shpargalki* are, however, violations of academic integrity linked to plagiarism, ghost-writing, manipulation of accreditation, degree mills and other forms of monetary and non-monetary corruption in academia. Sometimes students use *shpargalki* because they find it hard to study to such a high level. At the same time, they feel compelled to enter higher education because it is seen as the only way to secure a professional future. About 80 per cent of young Russians enrol in some form of higher education, and almost all of them complete their studies within the allotted time frame. One reason why students feel pressured to act in this way is the lack of social acceptance both of vocational education and of blue-collar employment.
Ponies have a long history and tradition not only in Russia, but also in other countries. In 2009, the School Museum in Nürnberg in Germany organised an exhibition of around a thousand ponies from the past 100 years. The exhibits came from all over the world and were displayed together with students’ success stories about their use of ponies. One such story was by Germany’s first post-war chancellor, Konrad Adenauer (1876–1967). In 2014, a similar exhibition opened in Russia’s Ekaterinburg, showcasing more than 80 items dating back to the 1980s. One of the exhibits was a 100 ruble banknote with math formulas written on it. This was a pony no teacher would have dared to confiscate, given the potential risk of being accused of having extorted a bribe!

6.34 **Pyramid schemes** (general)
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Pyramid schemes are a type of financial fraud. Operators recruit unsuspecting investors with the promise of high returns. They claim to run successful business projects, but in fact early investors are paid with the money collected from later investors (a practice also known as ‘robbing
Peter to pay Paul’). Products and services may be presented in order to mask the pyramid structure (Figure 6.34.1), but sales play only a marginal role, if any at all, in the schemes’ compensation formula. Essentially, pyramid schemes are money-transfer schemes that benefit a small number of people at the top of the pyramid while resulting in an eventual loss of money for the majority of investors. The rules regarding recruitment and recoupment of money vary, but whether or not one makes money depends almost entirely on one’s position in the pyramid. A pyramid scheme may survive for several years but, sooner or later, when growth stagnates, it will collapse. Pyramid schemes are a global phenomenon and have been observed for at least several decades. Though they are illegal in most countries, pyramid schemes keep appearing in political economies as diverse as those of the United States, China, Colombia and Lesotho. New technologies such as the Internet appear to have facilitated and accelerated the recent worldwide proliferation of pyramid schemes (Valentine 1998).

Pyramid schemes are sometimes confused with Ponzi schemes, which share the same underlying logic. The term Ponzi scheme goes back
to Charles Ponzi, an Italian immigrant to the United States who in 1919 initiated a fraudulent scheme by promising investors that they make massive profits by purchasing international reply coupons and redeeming them in the US for postage stamps. Ponzi’s scheme was not sustainable over the long term, but for a while he managed to deceive his investors by paying early ones with the money he collected from later ones, while pocketing millions of dollars himself. Eventually, the fraud was detected and the scheme collapsed. In 1920, Ponzi was arrested, charged with fraud and imprisoned.

In both pyramid and Ponzi schemes, existing investors are financially compensated from the contributions made by new investors. But while investors in Ponzi schemes are (misleadingly) informed that they are earning returns simply from their investments, participants in pyramid schemes are usually aware that their income is dependent on the recruitment of new investors and that they themselves must recruit additional investors, who will themselves recruit new investors, and so on. This may at first sight seem an insignificant detail, but in fact it is important because the multilevel structure resulting from the recruitment strategy of many pyramid schemes makes them difficult to distinguish from a business model that is legal in many parts of the world, that is, multilevel marketing (MLM).

MLM is a huge industry. Worldwide, it involves more than one hundred million individuals who represent direct-selling companies. The companies built on this model do not have retail outlets for their mainly beauty- and health-related products but sell them directly to the customer via independent salespeople. The salespeople do not receive a salary, but are paid a commission on their own sales as well as on the sales of any subcontractors they succeed in recruiting. While some direct-selling companies have been accused of operating illegal pyramid schemes, many pyramid schemes claim to be direct-selling companies (Keep and Vander Nat 2014).

Pyramid schemes can have devastating consequences, not only for investors but also for their families and whole communities. Participation may lead to financial ruin because people may invest their live savings and even sell their homes in order to invest in the schemes. Moreover, the schemes often provoke social conflict because investors are encouraged to put pressure on their friends and relatives to recruit them into the schemes. When the schemes collapse – as sooner or later they inevitably do – questions arise as to who bears responsibility for the disaster. Not only the initiators but also those who promoted the schemes locally – and who may well not have been aware of their illegality – face accusations of fraud.
Contrary to popular assumptions, participation in pyramid schemes is not always related to low education or financial illiteracy. Krige (2012: 73–4), for example, draws attention to the fact that in South Africa people from various social backgrounds including doctors, lawyers and company managers have participated in pyramid schemes that were operated from prestigious business addresses and that claimed to be prosperous, global business projects legally registered with the authorities. Newly emerging market economies appear particularly vulnerable to pyramid and Ponzi schemes. For example, a wave of schemes swept the former communist countries during their transition from socialism in the 1990s. Some of these schemes were huge in scale, such as the Caritas scheme launched in Romania in 1992; Caritas affected at least one in every five Romanian households and involved sums of money that came close to the country’s annual gross domestic product (GDP) (Verdery 1996: 174). Similar schemes in Albania reached such a scale that their collapse provoked a recession in the national economy (Musaraj 2011: 85–6). Russia’s MMM scheme – the most spectacular Ponzi scheme in any post-communist country so far – attracted 15 million investors over a period of six months; its collapse provoked a wave of suicides by despairing investors (Krechetnikov 2009).

A number of anthropologists have suggested that the proliferation of pyramid schemes should be understood in the context of larger global developments. Comaroff and Comaroff (2001) argue that while high-risk finance and banking have reduced the international financial system to a virtual casino, speculation and gambling have emerged as powerful sources of value creation. This is an unsettling experience for people both at the margins of the global economy and in developed countries, but in particular in societies that have recently undergone significant economic change. Disrupted lives and increasing inequality lead to feelings of exclusion from global prosperity; this may in turn enhance the attraction of economic structures such as pyramid schemes. Elaborating on this argument, Krige (2012) emphasises that risk-taking in the context of pyramid schemes not only corresponds to what is happening in global financial markets, but also fits a neoliberal discourse that celebrates entrepreneurship and self-empowerment.

While the post-socialist surge of pyramid and Ponzi schemes provides a strong case in point, it is difficult to assess the impact of large-scale economic developments on the proliferation of pyramid schemes, in particular because little is known about their history. The study of pyramid schemes might benefit from approaches that take account of historical and macro-economic as well as socio-cultural and micro-economic
factors in order to understand the appeal of such schemes in different times and different places.

**Playing the letter of the rules against their spirit**

6.35 *Flipping* (UK)

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In the context of UK politics, ‘flipping’ refers to the practice of Members of Parliament (MPs) manipulating the classification of their second home to maximise their parliamentary allowance. By designating a property as a second home, money can be claimed for it through Parliament’s Additional Costs Allowance (ACA) system, which allows second homes to be financed and renovated through the expenses system. The system also exempts second-home sales from capital gains tax. In cases of ‘flipping’, an MP changes which of their homes is registered as their official ‘second home’ with the apparent aim of maximising financial gain.

The etymology of the term ‘flipping’ is the English-language verb ‘flip’, which can mean to put something into motion, and also to turn something over (*Oxford English Dictionary* 2015). This second meaning is implied in the practice of flipping because MPs changed, or ‘flipped’, the status of a particular home for the purpose of claiming expenses. Flipping also has a specific business definition and refers to the practice of purchasing an asset with the intent of quickly reselling the asset at a higher price (Depken et al. 2009: 249). This definition is relevant to the accusations levelled at some MPs, who were alleged to have made substantial profit by selling taxpayer-funded second homes at the market rate and exempting any profit from capital gains tax.

The practice of flipping came to prominence with the so-called ‘expenses scandal’ that broke in 2009. *The Daily Telegraph* first brought the expenses scandal into the public eye and in doing so, focused heavily on flipping as one of the most financially significant and unethical abuses of the parliamentary expenses system (*The Daily Telegraph* 2009). As the expenses scandal gained public notoriety by mid-2009, particular attention was placed on flipping as one of the most deviant abuses of the expenses system. Many high-profile MPs including cabinet ministers were accused of flipping. Perhaps the most high-profile resignation to result from the scandal was that of the Secretary for Communities and Local Government, Hazel Blears. Blears bought a property in Kensington, London that was sold after four months at a profit of £45,000.
Because the property was designated as a second home, it was exempt from capital gains tax and mortgage repayments, leading to widespread criticism that the property had been bought with the intention of making a profit by ‘flipping’ it under the second-home allowances system (see Figure 6.35.1).

A nuanced analysis of parliamentary procedure is necessary to understand how and why flipping has developed as an informal practice. Historically parliamentarians were from the upper classes of society. Because of this, they viewed their job as a civic duty and were opposed to sullying their work with the application of a formal salary. Therefore, MPs did not receive any kind of pay or allowances until 1911 (Kelso 2009: 330). The payment of an ‘allowance’ (a fixed sum that was effectively a salary) began in 1911 and enabled increasing numbers of non-aristocratic members to enter parliament. In 2015 an MP’s salary was £74,000 (Independent

Figure 6.35.1  The practice of *flipping* was intertwined heavily with the much larger ‘expenses scandal’. The public outrage in reaction to the expenses scandal manifested itself in many forms. This image shows a satirical effigy representing the expenses scandal being paraded at Lewes Guy Fawkes night.

Parliamentary Standards Authority 2015) – significantly higher than the average UK salary, but significantly lower than that of many senior civil servants and comparable professionals. The Additional Costs Allowance (ACA) was introduced in 1972, to cover the additional accommodation expenses incurred by MPs with constituencies outside of London when sitting for long hours in Parliament. From 1985, MPs could claim for mortgage repayments under the ACA, which soon gave rise to the phenomenon of MPs outside of London owning properties substantially paid for through public funds (Kelso 2009: 331). By 2009, the funds that could be drawn on to support second homes stood at £24,222 per annum and included mortgage interest payments, furniture, fixtures and utility bills.

As the allowance system relied heavily on trust and was subject to light auditing, it became easy to systematically abuse the system. A weak system of auditing in combination with the comparatively low rate of pay offered to MPs resulted in many MPs viewing the expenses system as a supplement to their salary. Consequently, allowances were understood as an entitlement and MPs sought to gain financially from practices such as flipping. While the media has widely represented flipping as a ‘corrupt’ practice, many MPs believed their behaviour was legitimate within the context of Parliamentary culture (Kelso 2009: 330–1).

In spite of the complex systemic origin of flipping, the British media has overwhelmingly portrayed the practice as unethical and even immoral, with little attention given to the institutional mechanisms that have allowed MPs to take advantage of the system. Although the practice is technically legal and within Parliamentary rules, it is commonly presented as a form of corruption. The issue of flipping has further been problematised in the context of a perceived decline in the integrity of British politics (see cash for access, 2.18 Volume 1). In 2015 public trust in politicians stood at just 22 per cent and at the height of the expenses scandal it reached an all-time low of 13 per cent (IPSOS Mori 2015a).

Few solutions to eliminate the practice of flipping have been presented, despite an extensive review of the Parliamentary expenses system being promised. To reduce the occurrence of flipping, one solution may lie in recognising the resources needed by MPs to serve in a modern democracy, as well as the salaries typically available to such individuals in other professions. By failing to significantly provide these resources on a personal level through a competitive salary and attempting to supplement pay through a poorly regulated expenses scheme, flipping became a parliamentary norm (Kelso 2009: 335). As a consequence, a review has recommended that the salaries of MPs increase while the existing expenses system is much more tightly regulated (Independent
Parliamentary Standards Authority 2015). However, increasing MPs’ salaries is also unpopular with the public. In 2015, 72 per cent of people thought that MPs should refuse the 10 per cent pay increase that had been recommended by the Independent Parliamentary Standards Authority (IPSOS Mori 2015b).

Although a reform process of the expenses system is taking place that may curb the continued occurrence of flipping, the damage done to Parliament’s reputation by the practice may be difficult to repair. Understanding the institutional dynamics that caused flipping to emerge is necessary to explain its occurrence and provide solutions for preventing further abuse of the Parliamentary allowance system.

6.36 **Reiderstvo** (Russia and FSU)
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The Russian word *reiderstvo*, derived from the English term ‘corporate raiding’, is an attempt by an investor or group of investors to purchase a majority or significant minority stake in a publicly traded or privately held company. Once a raider acquires a controlling interest, they may replace the current management team or implement cost-saving measures in an attempt to increase the company’s overall share value (Salinger 2013). Unlike corporate raiding in the West, *reiderstvo* is designed for short-term gain rather than long-term investment, often for the purpose of stripping the business of its assets. The acquisition of the company may be technically in accordance with the law, but the methods by which the transfer is achieved are often semi-legal or outright illegal, including the use of physical force or corrupt collusion with state institutions.

Much of the research on *reiderstvo* focuses primarily on Russia and Ukraine; however, this tactic with its various forms can be found in other post-Soviet countries, including Uzbekistan, Kyrgyzstan and Kazakhstan. While the practice may vary slightly by country, common characteristics of *reiderstvo* include fraud, blackmail, manipulation or distortion of the law and actual or threatened physical violence. *Reiderstvo* is the result of uncertainty stemming from the privatisation of formerly state-owned industries, corrupt officials, poor corporate governance and an insufficient criminal code (Firestone 2008). The practice threatens both foreign investors and domestic business owners and undermines the development of market economies.

*Reiderstvo* dates back to the late Soviet era when organised crime groups exacted ‘protection money’ from bazaar (marketplace) traders
(this process is referred to in Russian as krysha, which means ‘roof’, see 6.23 in this volume). Not only did this provide safeguards against business rivals and competing criminal groups, but a krysha could also be used to attack a competitor’s business (Rojansky 2014). Following the collapse of the Soviet Union and subsequent privatisations, raider tactics shifted from small-scale protection and confiscation of minor assets to large-scale theft and seizure of state property. For instance, ‘black’ or ‘bandit’ raiding explicitly involved illegal activity and the use of force or intimidation whereby organised criminal groups would send armed men to the premises of a business to physically remove assets including cash, computers and machinery (Rojansky 2014).

By the late 1990s, raiding had evolved from the use of force to more sophisticated methods of coercion, including the manipulation of legal and political institutions. Although the use of force could still be present, it was commonly applied in conjunction with a variety of legal and administrative tools and was often used to facilitate or expedite a judicial ruling. Additionally, criminal figures no longer held a monopoly on force; private entrepreneurs and government officials actively participated in reiderstvo with the assistance of a vast network of judges, law enforcement, lawyers, accountants, journalists and others (Viktorov 2013). One of the more profound changes that precipitated the evolution of reiderstvo was the active assistance of regional and federal agencies. Such connections (through informal networks of influence or bribery) grant access to the security services, customs, courts and regulatory agencies, which can be manipulated to acquire, for instance, corporate documents or favourable judgments. For example, raiders across the former Soviet Union (FSU) commonly employ their connections to tax officials to open investigations into target companies, which can be used to initiate a state or private takeover. Indeed, the use of the state apparatus plays such a significant role in corporate raiding that the consensus among academics is that it is nearly impossible to conduct a raid without government assistance (Rochlitz 2014).

Academic research has identified four primary raiding schemes: forced bankruptcies/business crises, shareholder attacks, extortion and litigation (Firestone 2008). Although they may vary slightly by country or the specific tools applied (i.e. government agencies used), a variation of each scheme is present across the FSU. Although conceptually distinct, raiders often employ these tactics in conjunction with one another rather than as separate raiding tools.

The practice of ‘bankruptcy to order’ (see zakaznoe bankrotstvo, 6.37 in this volume) was common in Russia in the late 1990s and
early 2000s at a time when Russia’s bankruptcy laws were ineffective. However, similar schemes are still used today, either to force a company into bankruptcy to enable a raider to acquire it, or to drive down the share price of a given company for a raider to purchase a stake at a significantly lower cost. One tactic involves a state agency (such as the tax police or environmental regulator) affiliated with the raider issuing fines or penalties, which may either increase the cost of doing business or lead to bankruptcy. For example, between 2005 and 2009 Russian law enforcement agencies opened an investigation into the mobile phone retailer Yevroset, accusing the company of illegally importing mobile phones and extortion. Prior to the investigation, Yevroset was in discussion to sell the company for an estimated $3–5 billion; however, following the investigation, the company was sold for approximately a third of its original value (Moscow Times 2010). A government agency cancelling a state contract that the business relies on has a similar effect. Finally, the media may be used in a ‘black PR’ campaign (see chernukha, 8.5 in this volume). A media outlet (likely owned by the raider) accuses the company of various violations damaging to its reputation, again with the purpose of driving down the company’s share price or pushing it into bankruptcy. This tactic was used by Ukrainian oligarchs to seize a refined foods and oil company based in Dnipropetrovsk in the mid-2000s (Rojansky 2014).

The tactic of corporate or minority shareholder attacks is an attempt to seize a business from within, typically through the manipulation of shareholder rights. In this case, a raider buys out a minority shareholder (possibly through bribery or intimidation) to acquire a small stake in a target company. As a shareholder, a raider gains access to company registers that can then be manipulated or used to investigate any weakness in the company’s legal status (questionable privatisation deals, licence discrepancies, etc.). If discovered, the raider files a criminal case, which may lead to bankruptcy proceedings or a business crisis as described above. Another tactic is the continual acquisition of minority shares to influence board decisions. Once a raider is in this position, they may convene a shareholders’ meeting but systematically exclude other shareholders. This can be achieved by holding the meeting in a remote location, or simply by arranging the meeting at short notice. Once a meeting is convened the raider can replace the board with more favourable allies, or sell off the company’s assets to third parties (often affiliated with the raider). A shareholders’ meeting may also provide opportunities to issue more shares (sold to the raider or an affiliated party), effectively diluting the voting rights of other shareholders.
In the ‘extortion’ scenario, a raider or affiliated party disguised as an investor approaches a company, suggesting a new business partnership. If the company refuses, the raider leverages contacts in state agencies to apply pressure on the company by increasing the cost of doing businesses (such as fines, arbitrary investigations, environmental violations, etc.). The company is then compelled to sell a stake in the company for the attacks to stop. This process is repeated until it becomes too costly for the company to continue; thus it is forced to sell to the raider. Extortion may also be used to guarantee the target company receives the necessary state licences or government contracts to operate. Uzbek President Islam Karimov’s daughter, Gulnara, who allegedly received bribes from Russian and Finnish telecoms companies, reportedly used this practice to exact bribes and increase her stake in the local telecoms market (Patrucic 2015).

Courts play an integral role in the raiding process and are commonly used to legitimise forged documents, freeze company assets and accounts, or sanction the use of private security forces (owned by the raider) to enforce court orders. Legal systems across the FSU tend to suffer from institutional weakness and are highly susceptible to corruption and elite interests. This provides opportunities for raiders to manipulate the courts and use litigation schemes to take control of companies. Judges may be bribed or directed to rule on false criminal charges against the management or owners of a target company. The victim is then arrested, but can buy their freedom by selling the company at a reduced price. Alternatively, a raider may employ the ‘shareholder scheme’ to seize company assets while the victim is in custody. According to the Moscow-based non-governmental organisation (NGO) Liberal Mission Foundation (Open Democracy 2013), between 2000 and 2010 over 15 per cent of all Russian business entities were subject to groundless criminal proceedings, of which over 100,000 resulted in convictions.

While intimidation and violence has decreased since the early 2000s, corporate raiders may still hire private security firms to seize a company building or headquarters based on an injunction that has been granted by a bribed judicial figure. While any corporate raid is usually reliant on the support of a legal or political actor, intimidation is still used to facilitate or expedite the process. A recent public instance of hiring armed men to seize company property was the case of Ukrainian oligarch and former Mayor of Dnepropetrovsk, Ihor Kolomoysky, in March 2015. Following the passing of legislation that limited his influence over state oil company UkrTransNafta, Kolomoysky, who owned a minority stake in the company, hired a militia to raid the property. The raid, however,
was unsuccessful; Kolomoysky was unable to exert greater influence over the company and lost his position in Dnepropetrovsk shortly after. Nonetheless, the event highlights how intimidation can still be a useful tool for corporate raiding.

6.37 **Zakaznoe bankrotstvo** (Russia)
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In general, bankruptcy proceedings usually function as a mechanism for liquidating or rescuing distressed companies and protecting creditors’ rights. However, in post-Soviet Russia, bankruptcy proceedings have often served as a mechanism to enable hostile takeovers, or as a means of attacking a rival company (see reiderstvo, 6.36 in this volume). The manipulation of bankruptcy proceedings is known as **zakaznoe bankrotstvo**, which literally means ‘bankruptcy to order’: **zakaznoe** is the adjectival form of the noun **zakaz**, which means an order, contract or commission. **Zakaznoe bankrotstvo** is made possible through the exploitation of legal weaknesses and informal networks. One expert noted in 2004 that, ‘[b]ankruptcies “to order” have become a major business, often combining strategies for exploiting weaknesses in the law with political intervention and outright corruption’ (Tompson 2004: 1).

The practice became widespread in the late 1990s and was closely linked to the Federal law ‘On insolvency (bankruptcy)’ of 1998 (henceforth ‘the bankruptcy law’). The number of bankruptcy cases soared after the 1998 law came into force, rising from 4,200 in January 1998, to 15,200 in January 2000, and 52,500 in January 2002 (Simachev 2003). According to the Federal Service for Financial Rehabilitation (FSFO), which had been responsible for supervising bankruptcy proceedings, in approximately 30 per cent of cases creditors were more interested in bringing about a change of ownership in a particular company than in recovering the debt (Golovachev 2001).

One of the most high-profile cases of **zakaznoe bankrotstvo** was that of Chernogorneft, a subsidiary of the oil company Sidanko, which was artificially bankrupted in 1999 by Tyumen Oil Company (TNK), another major Russian oil company at the time. TNK acquired debts from Chernogorneft’s creditors and instigated bankruptcy proceedings to obtain control over the company. BP Amoco (which had paid $571 million USD for a 10 per cent share of Sidanko in 1997) along with other foreign shareholders found themselves squeezed out, and accused TNK
of intimidating judges and journalists to pull off the successful raid (The Economist 1999).

The main reason the 1998 version of the bankruptcy law triggered the practice of zakaznoe bankrotstvo is that it set a very low threshold for filing a bankruptcy suit. For example, a bankruptcy proceeding could be initiated against a company if the outstanding debts exceeded an amount 500 times the minimum wage (i.e. a relatively small sum in the context of corporate finance), and if the company failed to meet payment obligations within three months of the due date. In addition to overdue debts, bankruptcy proceedings could be started on the basis of tax arrears or unpaid utility bills. The 1998 law was intended to rectify the defects of the 1992 law, which allowed debtor companies to continue accumulating debts and unpaid bills. However, the 1998 law set the threshold so low that not only truly insolvent companies but also those capable of servicing debts were forced into bankruptcy (Tavernise 2000; Volkov 2004).

Another weakness of the 1998 bankruptcy law was that it granted court-appointed (temporary and external) administrators considerable power over bankruptcy proceedings. Once bankruptcy proceedings were started, a temporary administrator took charge of the debtor company. The creditors who had filed the application for the initiation of bankruptcy proceedings often influenced temporary administrator appointments, effectively installing someone to serve their own interests rather than the interests of the company subject to the bankruptcy proceedings. For example, in the aforementioned Chernogorneft case, the administrator was allegedly allied to TNK (The Economist 1999). The temporary administrator had the authority to grant or withhold approval for many of the transactions carried out by incumbent managers, including disposal of assets or taking out of loans. They also had the power to control creditors’ registers, which enabled them to exclude or undervalue the claims of some legitimate but ‘undesirable’ creditors, and to inflate the claims of others. In addition, the temporary administrator was responsible for organising the first creditors’ meeting where it was decided whether to appoint an external administrator, or whether company liquidation and asset disposal should be initiated immediately. If the decision favoured external administration, then the external administrator candidate would be decided at this meeting (Oda 2001; Tompson 2004; Volkov 2004). The external administrator, who was given substantial authority, would then take over the management of the entire bankruptcy process, with the director of the debtor company removed from post and the power of the incumbent manager terminated. The external
The bankruptcy administrator had the power to make changes to the company’s management, to dispose of company assets and to take control of the debtor company’s financial flow (Volkov 2004).

When launching a hostile takeover or an attack against a bankrupt debtor, the key to success was obtaining as much debt as possible as a creditor and then appointing ‘one’s own’ (svoi) person as bankruptcy administrator. Through this bankruptcy administrator, a creditor could control the entire procedure. If a creditor could manage to appoint a closely connected administrator, bankruptcy was a cheaper and sometimes more reliable means of company takeover than obtaining shares in that company (Afanasiev 1998; Bashkinskas 2000). For this practice to succeed, the initiating party was required to coordinate and mobilise an informal network of various actors such as external administrators, courts, the regional governor, the regional representative of the FSFO, law enforcement agencies, etc. (Novaya gazeta 2000). Also, some alliance was required between the court-appointed bankruptcy administrator and the judges, as well as some political intervention for its enforcement. The cooperation of – or at least non-interference from – regional authorities was important in bankruptcy proceedings, since arbitration courts were often dependent on the regional authorities.

The 1998 bankruptcy law was amended in 2002 in an attempt to bring to an end the excesses of zakaznoe bankrojstvo. The amendment raised the threshold to initiate bankruptcy and made it more difficult for creditors to apply for bankruptcy proceedings. Moreover, the powers granted to bankruptcy administrators, which had been seriously abused through the practice of zakaznoe bankrojstvo, were also substantially curbed. For example, the administrator’s power to dispose of debtors’ assets was brought under the strict control of the creditors’ meeting (Oda 2007). Following the 2002 amendment, the previously typical phenomenon of using or ‘ordering’ a particular administrator in launching zakaznoe bankrojstvo became less common (Iukhin 2006).

Although the practice of zakaznoe bankrojstvo has decreased following the 2002 amendment of the bankruptcy law, it has not been eliminated altogether. For example, the tactic was used since to bring about the de facto privatisation of state-owned vodka producers. One example concerns the vodka factory Yarich, which in 2006 (when it was owned by the federal state alcohol holding company Rosspirtprom) took out a 10 million rouble bank loan, with its property as the guarantee. The debt was purchased by the trading house SDS-Alko in April 2009, which then demanded its repayment. When Yarich was unable to repay, SDS-Alko took out a court action for the bankruptcy of
Yarich. A few months later a new company began operating at the Yarich site, owned by SDS-Alko. The case was described by national newspaper Vedomosti as ‘a clear example of how bankruptcy is becoming an instrument of privatisation’ (Bailey 2018).

In terms of linguistic usage, it seems that the term zakaznoe bankrotstvo has become less common since the early 2000s. This may be partly due to the practice itself becoming less widespread since the bankruptcy law was tightened up in 2002, but also due to the term reiderstvo gaining wider currency from this time (Sakwa 2011; Sagova 2012). Reiderstvo is a broader concept than zakaznoe bankrotstvo, with its meaning encompassing a range of informal tactics used to execute hostile takeovers. Zakaznoe bankrotstvo is one of those tactics, but others can include the use of contacts in the judiciary, in state agencies (who can, for example, impose fines or revoke licences), and even physical force and violence.

6.38 **Dangou/Dango** (Japan)
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_Dangou_ (sometimes spelt _Dango_) consists of two Japanese _kanji_ characters, _dan_ meaning ‘dialogue’ and _gou_ meaning harmony. Originally, the meaning of _dangou_ was consultation or conference, but the meaning has changed and come to refer to a practice of cartel – a mutually agreed position to predetermine the successful bid for a contract within the Japanese procurement system. Thus, its equivalent English term is bid rigging.

_Dangou_ has a long history dating back 500 years to the Edo era, and as such it may be argued there is no other case in the world that has such a pervasive and codified system as is found today in the Japanese public construction system (Woodall 1993: 297). Japanese citizens were so accustomed to this practice that it was not until after the end of the Second World War, with America’s intervention in the Japanese domestic market, that scandals relating to _dangou_ were publicly acknowledged and reported by the press (McMillan 1991: 201).

One illustration of how _dangou_ practices work is found in the example from the late 1980s of an American company who decided to submit a bid for constructing toilet facilities at the US Yokosuka Navy Base. The American company participated in the bidding process, unaware that over 100 national and local contracting projects were in place at the base, rigged by the Yokosuka ‘teahouse’ network. The Americans were
surprised that all the other companies bid at highly inflated levels and that there was little variation in the levels at which they bid. As the only foreign bidding company they won the contract with a reasonable bid price, which was half that of the bids made by the Japanese companies. Without the American company’s bid, the Yokosuka ‘teahouse group’ (an informal network of Japanese contractors) would have won the contract, but more importantly, at a highly inflated price. After the bidding process was concluded, the Americans overheard the Japanese complaining about letting a gaijin (an outsider) interfere with their internal rules of bidding. The Americans feared harassment and vandalism by the losing group, but some months later a raid on the offices of the Yokosuka ‘teahouse’ group, known as the ‘Star Friendship Club’, produced evidence of dangou and endemic bid rigging.

Over time, dangou has been viewed as part of the unique political culture and history of Japan. For this reason the Japanese mode of doing business is simply explained to Westerners by the word ‘dangou shakai’ meaning ‘society’. In the first instance it is necessary to explain dangou’s embedment with Japanese society throughout history as part of the ‘iron triangle’. The ‘iron triangle’ here represents the relationship between politicians, government bureaucrats and business. The triangle functions in the following way: businesses take it in turns to win competitive bids, operating from a position of strength because they are armed with the prior knowledge of the ceiling price of the bid, which has been leaked to them in advance by government bureaucrats. In return for the information, the bureaucrats are guaranteed a high-profile position in the company after retirement. Meanwhile the politicians who are responsible for the public construction programmes receive a kickback (Black 2004: 603). The retired bureaucrats are called amakudari (‘descents from heaven’). This ‘iron triangle’ has its origins in ancient Japanese culture, but was also influenced by behaviours found in the centralised Soviet style of management (Ross 1994: 64). A second reason for dangou’s popularity is the fact that with the exception of big firms and tycoons, the major part of the Japanese economy consists of small and medium-sized businesses – often family businesses – that have endured from one generation to another. Apart from being part of a personal network, dangou embodies a benign practice for the purpose of helping small firms survive harsh competition from business giants. Another contributory factor that explains dangou’s unshakable position in society is the age of globalisation. In the process of globalisation, traditional Japanese businesses perceive themselves to be under constant attack from international corporations, thus practising dangou provides them with protection (Black 2004: 611). In the opinion
of *dangou* participants, *dangou* has saved the Japanese economic environment from being polluted by outsiders and prevented unpredictability and instability in the global market (Ross 1994: 65).

Considered from the socio-economic perspective, *dangou* can be regarded as a rational corollary of the specific economic environment of post-war Japan (Woodall 1993: 298). First, as understood literally, the process of *dangou* requires consultations taking place among participants. The optimum number of dialogues is considered to be $N(N-1)/2$. Since the tendering system designed by the procurement department of government normally regulates the number ($N$) of participants in the bidding pool to a range from 10 to 12, the actual number of dialogues taking place in the process of *dangou* is limited to a manageable number (Woodall 1993: 301). Second, as mentioned above, this tendering system is designed by the government to guarantee the quality of participating businesses, and to provide a natural barrier against opportunistic outsiders who might be attracted by the potential profit created in the collusion process (Woodall 1993: 302). Third, to stabilise the illegal group behaviour, mechanisms of punishment were developed. Thus to ensure loyalty, if one of the conspirators broke the *dangou* (*dangou yaburi*), they were automatically ostracised from all trade associations as they had lost the confidence of the group (Woodall 1993: 303). These informal devices elicit compliance since in Japanese society no business can survive without close associations, nor survive the loss of social capital. Another layer of protection for *dangou* participants are the disincentives for whistle-blowing (Woodall 1993: 303–4). In Japan, a pension is paid according to one’s longest length of service. Hence, no one can afford to change jobs frequently or to suffer the loss of their social network; therefore the price of opportunistic bidding is too high.

*Dangou* not only inflates government expenses, causing government deficit and wasting taxpayers’ money, but it also avoids fair competition and encourages particularism and corruption, which could eventually hurt the development of the Japanese economy. It is estimated that *dangou* is responsible for inflating government expenditure by between 30 per cent and 50 per cent (McMillan 1991: 209). The inflation of government expenses can be used as one of the measurements of *dangou*. The second method of estimating the extent of the practice is to evaluate the number of scandals reported in the media. Third, it is possible to estimate levels of *dangou* according to the extent of legislation passed to prohibit this crime. Since the legal reforms of the early 2000s, laws such as the anti-monopoly law, and a law against *kansei dangou* have been passed, yet little success can be observed thus far in deterring the practice (Yoshida

6.38 *DANGOU/DANGO* (JAPAN)
and Park 2014: 144). Research on dangou also heavily depends on the findings of investigations of suspect companies and subsequent convictions, but the networks of participants are extremely hard to break.

Another informal practice related to dangou is ten no koe (‘voice from heaven’). This term is used as a metaphor to describe a practice whereby before a bidding process starts, a government official claims to have heard a voice from the Gods urging him to use a particular company. As a result the bidding process is ignored and the ‘recommended’ company is automatically appointed (Logan 1994). On one hand, the absence of any competition makes this informal practice even more suspect than dangou. On the other hand, on certain occasions it may be explicable, for instance, if specific technologies, skills or patents are required that only the chosen company is in possession of, it may be considered ethical. However in practice, ten no koe is usually seen as an excuse invoked when the dangou process has broken down and an emergency solution is needed to obtain the ‘right’ result.

In China, dangou is known as Weibiao. Literally, it means ‘bidding being surrounded by companies in a union’. Weibiao and dangou share cultural similarities. Thanks to the same influences of Confucian culture, the tradition of gift-giving is widely used not only in weibiao but also in the infamous informal practice called guanxi (see 1.12 Volume 1). The starting point of gift-giving, in both cases, is to maintain and strengthen jinmyaku (Japanese for personal networks, see 1.18 Volume 1), which is directly translated as guanxi in Mandarin. However, there are significant differences between the two informal practices of weibiao and dangou, which may be explained by crucial differences in the economic and political environment of the two countries. First, although both China and Japan passed anti-bid-rigging laws, in neither case has the legislation made a significant difference in prohibiting the practices. Yet, the problem of the Japanese anti-Kansei dangou law is in its enforcement, while the problem in China is that the law itself is less detailed, leaving loopholes for people to continue practising weibiao (Weishaar 2010: 409). Second, as a socialist country, a huge percentage of the Chinese economy is taken by state-run businesses. However, state-run companies are eliminated from the anti-Weibiao law thanks to complicated measures in force to protect national reserves. As a consequence, this encourages a certain level of bid rigging because state-run companies cannot be prosecuted (Jingshifaxun 2009). In the Chinese case, bid rigging often happens in less-developed states along with other traditional informal practices, while in Japan the practice occurs within a well-established, developed market economy in a democratised system. Furthermore,
although defined as illegal by the government and outdated, *dangou* is both traditional and habitual within the Japanese economy.

6.39  **Vzyatkoemkost’** (Russia)
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*Vzyatkoemkost’* expresses, in a narrow sense, the potential of a piece of legislation to create opportunities for bribery. In a broader sense, it refers to a legal framework that grants state officials discretionary power to extort bribes, obedience or other forms of benefits. The term ‘corruptogenic potential’ has been given as the standard translation of *vzyatkoemkost’* into English (akademik.ru 2011). This Russian neologism is made up of two words: *vzyatka* for ‘bribe’ and *emkost’* for ‘capacity’ or ‘potential’. The term first appeared in 1996 in an article in a leading Russian newspaper on ways in which regulations imposed on car drivers might be exploited as an opportunity to demand bribes (Sokolov 1996). It was picked up again in another journal article, this time in 2000, which generated considerable interest and contributed significantly to the term’s popularity (Privalov 2000). In 2003 and 2005, the term found its way into two Russian dictionaries (Mochenov et al. 2003; Pogrebnyak 2005).

Law is commonly seen as a power resource because of its ability to constrain options for action by making certain behaviour more costly than others. *Vzyatkoemkost’,* by contrast, relies on another characteristic of the law: the capacity to create or prevent predictability. Following the basic definition of law as ‘a prediction of ... what an official will do’ (D’Amato 1983), the quality of legislation determines the predictability vis-à-vis the discretion of official action. The more discretion is granted to state officials and the less predictable the law becomes, the more citizens are forced to seek predictability by informal means. Bribery is an informal answer to administrative discretion created by formal law.

The United Nations Development Programme (UNDP) Anticorruption Assessment Guide identifies four major legal corruptogenic sources (UNDP 2013). First, if a law is vaguely formulated, that allows officials flexibility both in evaluating the legal facts and in deciding what actions to take with respect to procedure, term, sequence, delegation and punishment. A second source is legal gaps within a law or with regard to other regulations that may emerge as a result of the non-existence, non-enactment or invalidation of a law. Third, conflicts of rules within one law or with other laws may also prevent rule-abiding behaviour and allow state officials to act at their own...
discretion. Fourth, the corruptogenic potential increases with the administrative obligations of a law, which may establish an undue burden or even make law-abiding behaviour impossible. In addition, a fifth source of vzyatkoemkost’ may arise from the volatility of law, which occurs when regulations are frequently changed. In all instances, the specific character of legislation may increase the costs of compliance or prevent law-abiding behaviour and thereby enhance the discretionary power of state officials. Vzyatkoemkost’ may emerge unintentionally as the result of a rushed or careless legislative process; it may then be maintained once the corruptogenic potential of the law becomes apparent. Vzyatkoemkost’ may also be created deliberately by a targeted interference in the law-making process.

Vzyatkoemkost’ is not only relevant for the extraction of bribes and kickbacks (otkat, see 6.29 in this volume) but is also constituent with the formation of a new type of political order. In the Soviet period, partly repressive legislation was applied selectively and demonstratively. The deterrence function of law served to ensure obedience within the Communist Party and the state, thereby maintaining the given political order. In the post-Soviet era, by contrast, a political order emerged that was based on the irresolvable contradiction between formal rules and informal practices. Vzyatkoemkost’ was its central institutional prerequisite. Officials were equipped with sufficient legal opportunities to collect bribes, which had to be shared with superiors. The corruption pyramids created thereby extended through all levels of the state administration.

The prevention of legal predictability helps to establish regular routines and patterns of informal interaction between state and society. Vzyatkoemkost’ may become a dominant feature to the extent that the intended content of a law is virtually eliminated and the distinction between tax, fine and bribe becomes blurred (Paneyakh 2008). In such cases, a law may become a mere shell facilitating the emergence of specific informal institutions and practices. Another crucial component was that the collection of bribes was comprehensively monitored. The data gathered (kompromat, see 8.5 in this volume) on wrongdoings could be used against state officials at any time, thereby ensuring their loyalty to the regime. The result was de facto criminalisation of wide ranges of state and society. Darden has called this form of political domination, which was paradigmatic for the first decade of the post-Soviet transition, a ‘blackmail state’ (Darden 2001). Vzyatkoemkost’ contributed to this fragile socio-political order in two ways: first, it turned the state into a vehicle for the extraction and distribution of rents (state capture), and second it provided a powerful tool to discipline and balance the various influential societal groups.
The character and purpose of applied legal vzyatkoemkost’ may change over time. As more capable and assertive states began to emerge in the post-Soviet space, the law’s corruptogenic potential did not become redundant but helped to facilitate ‘business capture’, that is, the informal or de facto takeover of firms and markets by political elites. This provided politics with a powerful informal management instrument for steering private investments in areas of national interest.

Changes in the legal framework may also affect the functioning of vzyatkoemkost’. Russia, for example, introduced anti-corruption legislation in 2009, which among other measures established a parliamentary commission to review draft laws for their corruptogenic potential. Law has become increasingly important for the efficient organisation of state administration and promotion of economic development.

Increasing juridification of state–society relations and greater reliance on legislation does not necessarily, however, lead to the development of the rule of law. In fact, greater transparency and availability of information for state officials may increase the likelihood that entrepreneurs will be targeted by state officials (Paneyakh 2008). Moreover, given the prevalence of vzyatkoemkost’ at regional and secondary law level, increased stress on formal rules increases the conflict between formal rules and informal practices. In this respect, it may turn law and its corruptogenic potential from a background facilitator of informal relations into a more direct threat for political, economic and societal entrepreneurs, since wrongdoing becomes more likely to be punished.

Various taxonomies have been developed (Tihomirov 2004; Krasnov et al. 2005; UNDP 2013) to analyse the vzyatkoemkost’ of legal regulations. The specific extortion potential depends on various factors such as the type and density of relevant corruptogenic rules, the scale of the penalties imposed, the degree of independence (or lack of it) of the judiciary, and the financial dimension of the respective legal area.

**Conclusion: methods of researching part-time crime and illicit economic activity**

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‘Part-time crime’ is an intrinsically ambivalent concept. Many occupational practices that are defined as illegal by the wider society are accepted as legitimate within most occupations. Pilferage or ‘fiddling’ (‘scamming’ in the US) based in the workplace has been a recognised
feature of employment ever since employment was invented, and is generally regarded as ‘different’ from regular crime (Ditton 1977). An Egyptian papyrus of 1500 BC records a collective scam at a Pharaoh’s farm (Peet 1924) that closely mirrors the ‘firm within a firm’ practices recorded in a Soviet biscuit factory in the 1980s, where output produced above the central plan was sold on to the private market (Mars and Altman 1987a, 1987b). The organised pilferage and distribution of cargo from Newfoundland docks (Mars 1974) echoed the pilferage from London’s docks in the eighteenth century. Nor are the professions immune. Charles Dickens’ notorious, albeit fictional, account of legal delays and the profits amassed by independent nineteenth-century lawyers can still be found today (Business Insider 2015). Such practices are evident to all who hire employees paid by time. Delivery people are similarly prone, while garage servicing is notorious in this respect. And everyone has had experience of ‘Oops, sorry!’ short-changing cashiers.

These occupations have not been identified randomly: they typify wide differences within a field long treated as homogeneous. Given their variation, one cannot apply the same research methods. Methods developed to examine, say, regular pilferage in the docks, or irregular ‘leakage’ from a factory, are not suitable to examine the deviance of roundsmen, bankers or shop assistants. These varying occupations, however, all offer additional illicit earnings and often the building and maintaining of social bonds inside and outside the workplace. And all foster ambiguities as both a shield and a means to their ends.

Because the wider society and the law classify illicit earnings as deviant and often as criminal, practising fiddlers naturally attempt to conceal their activities. To determine their likely incidence however, it is often useful to adopt a basic police mantra to identify if and how a particular situation reveals three characteristics: whether it offers the incumbents the MEANS, the METHODS and the OPPORTUNITY to practise illicitly.

Since all illicit activity is subject to moral assessments, a prime requirement for any researcher is to suspend (without necessarily abandoning) their own moral standpoint: impartial understandings can be achieved only if, like anthropologists, one lays one’s own values aside. Only then can the field be assessed from the standpoint of the actors involved.

The next requirement is access to a system of classification with categories that are both exclusive and exhaustive and that therefore allow effective comparison. Alternative systems of classifying jobs or their fiddles based on income, class, skill or prestige have not satisfied these requirements. But without classification and comparison there can be no science. The classification chosen here is derived from Cultural Theory,
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devised by the anthropologist Mary Douglas and originally termed ‘Grid/Group Theory’ (Douglas 1970). As applied to the study of work, it posits four archetypal (‘ideal type’) work cultures based on how jobs are organised (Mars 1982/1994).

The allocation to work cultures is determined by two structural principles – rules and relationships – considered here as continua. The first, ‘Grid’, assesses jobs where constraining rules are imposed on incumbents at one extreme (strong grid) to where, at the other, an absence of rules (weak grid) permits a degree of worker autonomy. The second, ‘Group’, assesses the degree to which workers are integrated into a group, as part of a team or gang (strong group) at one extreme and extends to whether they work in isolation (weak group), at the other.

These two continua, when arranged as a 2 x 2 matrix, provide four archetypal cultures – sometimes termed ‘ways of life’ (see Figure 6.40.1). It is these forms of organisation that facilitate and foster their incumbents’

![Figure 6.40.1 Typology of work cultures. Source: Author.](image-url)
values, attitudes and behaviours, though not their individual psychological orientations. This is a sociological, not a psychological, theory.

A. Hawks. Where constraints are minimal and opportunities are ‘up for grabs’, Hawks (weak group and weak grid) operate competitively and independently. Here we find entrepreneurs, those in innovative, autonomous, risk-taking jobs, and employees operating in ‘their own’ territories. Here too are the time-based fiddles of professionals: lawyers, accountants and industrial consultants who not infrequently fiddle to excess. Hawk fiddlers are prone to ‘bending time’ and they similarly ‘bend’ rules, precedents and sometimes laws. Seeking to extend their networks is a constant activity with a tendency to impress via conspicuous consumption and fashion. Their perceptions and strategies are short-term: bonus-earning bankers are archetypal Hawks (Mars 2013b: ch. 9). Their fiddled incomes tend to provide a high and expected proportion of their total rewards. And, since archetypal Hawks are not subject to constraints from groups of colleagues or historical precedence, they are likely to follow existing trends to excess. For example, they are unlikely to anticipate changes in market conditions or economic downturns. Sources of data on Hawk fiddlers, which vary widely according to the context, include whistle-blowing by former employees, media reporting and the results of official enquiries. Active fiddlers are, of course, unlikely to provide data. Cross-checking data is essential.

B. Donkeys (weak group and strong grid) are employed in highly constrained and isolating jobs such as in call centres, and include many of those who work from home and some shop assistants. Lacking group support they tend to be passive yet capable of short-changing and occasional excessive pilfering. As one headline put it: ‘Shop Assistant’s Home was an Aladdin’s Cave – Police Report’. If the grid is strongly asserted – especially when mechanised – donkeys may well respond with sabotage. There is normally no shortage of donkey data from people who have worked or continue to work. Again, cross-checking is valuable. In ‘one-to-one’ service dealings, such as customer to sales assistant, close observation is a fruitful data source. Obscured measuring scales and till windows placed out of sight can be a sign – appear careless and look around. If male, shop where the usual customers are female. Check the change against the receipt (if any). Often, the control systems that might be effective are not in place, either because of the expense of installation or as a result of managerial collusion to incentivise workers and allow the cost to be borne by the customers. Incentive coupons issued by stores and petrol stations are not infrequently retained by staff to be later redeemed by them or their friends. The creation and exploitation of ambiguity has
long been the basis of illicit activity, and is so even more with increasing
globalisation and the complexity of technological developments.

C. *Wolf packs* (strong group and strong grid) are noted for hierar-
chic divisions of labour that coordinate different functions to a common
task and that typically ‘adapt’ legitimate work roles to illegitimate ends.
Mutual support and loyalties are firm and consistent. Wolf packs were
found among the ancient Egyptian farm scammers, eighteenth-century
dockworkers and Soviet factory managers (who in that case were allied
to Hawks). Wolf packs typically exert collective controls over their mem-
bers – especially over the amounts pilfered – and apply sanctions against
those who exceed them. But they also work to maintain minimum levels. In
effect, Wolf packs operate a quantitative morality: taking above the speci-
fied limits is unjustified and sanctioned, while achieving lower levels is
justified and creditable. The effective maintenance of this morality reflects
adherence to long-time perceptions, overall risk aversion and a clear dis-
tinction between insiders and outsiders. Among Wolf packs there is usually
a strong intermesh of work and community that supplies the basis of team
recruitment, moral support and a conduit for fiddled goods (Mars 2013a).

Wolf packs are hard to research. The intricacies of their internal
controls; the complexity of intermeshing roles and the created ambi-
guities that conceal their deviance; their means of recruitment and typi-
cally the tightness of their boundaries against outsiders, all tend to limit
communication with them. Ideally, participant observation would be
the most effective research method. But, in the absence of a researcher
who has actually worked in the context, the next most effective method
is to use, as informants, former Wolf-pack members who preferably have
physically moved from the community (Mars and Altman 1987a, 1987b).
Retrospective studies are easier, and people tend to talk more readily and
to be less apprehensive of publication when there have been subsequent
changes in technology or organisation. Approaching the subject obliquely,
without a focus on deviance, identifying several informants to cross-check
accounts, and, if possible, raising examples of personal experience as a
participant in occupational deviance can help build rapport.

D. *Vultures* (strong group and weak grid) are found where individ-
uals fiddle for themselves but are subject to the constraints of a common
employer. Examples are roundsmen, garage mechanics and waiting staff
in hotels and restaurants. Like real-life vultures, they work together, but
are independently competitive ‘at the kill’. They value group involve-
ment and embrace egalitarianism, but reject group-sourced constraints
and do not validate arbitrators – thereby contributing to group instabil-
ity and schism. Since the boundaries of Vulture groups are typically less
strong than those of Wolf packs, their ability to control recruitment and maintain group controls is weaker. Their labour turnover tends to be higher – many Vulture jobs are seasonal – so bonding within Vulture groups is less intense and their defences against outsiders are weaker. Because Vulture groups, unlike Wolf packs, are unable to sustain any group-based consistency about levels of pilferage, there is a tendency for them to agree collusive levels with overall supervisors who often use access to fiddles to reward extra effort differentially. This partiality further weakens the consistency and stability of Vulture groups. Suggested research methods for this category include participant observation – by far the most effective research method – or finding informants. Provisos about the need for multiple informants and the cross-checking of data stand.

Ambiguity is often fostered where a good’s quality, quantity or exact category can readily be ‘fudged’. It is not easy to compute the quantity of drink consumed at a wedding, the extent of a car’s servicing, the number of bricks delivered to a site, the thickness of concrete once it is laid, the amount of copper in a building or the gauge of zinc on a roof. Since these fiddles often require collective, cooperative support they are the particular but not the exclusive province of Wolf packs or Vulture groups. At busy times, especially in a sellers’ market, ambiguity is likely to be deliberately increased – as at the New Year sales and when drinks are served during intervals at crowded theatre bars. This is when price lists go missing; cash-register windows become obscured and short-changing increases.

Globalisation – the free and rapid movement of capital, labour and ideas – facilitates increase in the centralisation and scale of enterprises. Managers grow increasingly distant from their workforces both socially and physically. Despite central controls, planned targeting, transparency and accountability measures, local managers enjoy greater autonomy and this in turn facilitates Wolf pack and Hawk fiddles. Through larger and more ‘distant’ units, they gain not only economies of scale, but also greater anonymity, lack of worker identification and more opportunities for theft (Smigel 1956). Because of the increased competition, globalisation involves, it also encourages an extension of information technology (IT) and technical complexity.

Ambiguity is fostered when gaps widen between levels of practitioner expertise and the relative ignorance of customers. John Adams (2000) has pointed to the ‘hypermobility’ of Western society that, together with globalisation, involves people travelling over steadily increasing distances with a growing proportion of people living in urban conurbations. Both facilitate fiddle-proneness.
Four contexts that facilitate fiddling and have intensified with globalisation can be distinguished; often they operate simultaneously. First, ‘passing trade’ typically occurs where two sides to a transaction transact only once, precluding a build-up of goodwill. It also operates when the fiddler is mobile relative to the customer: the ‘relief hand’, ‘the filler-in’ and ‘the temporary replacement’ are more fiddle-prone than the regular jobholders they replace. This is a particularly common feature of Vulture operations, where the public ‘pass through’ as in holiday resorts, pilgrimage centres, or airport and railway snack counters.

Second, ‘triadic occupations’ enable service workers directly involved with customers to play off two of the trio (employers, staff and customers) to their own advantage and against the interests of the third party. For example, a sales assistant or café-staffer sells items to friends at below cost, or an employer tells an employee to mark up prices to customers in anticipation of a stocktaking shortfall. With globalisation, increasing urbanism and hypermobility, burgeoning travel and tourism all increase both passing trade and triadic occupational deviance.

Third, ‘exploiting expertise’ is found where a relative imbalance of customer knowledge can be presumed – as in garage services, domestic repairs and many professions. Globalisation, together with increasingly complex technical developments, offers Hawks greater opportunities to exploit their expertise, since they can more easily insulate their activities and gain multiple payments for the same time – a common fiddle of consultants.

Fourth, ‘gatekeepers’ are found where there is an imbalance between the supply and demand for goods or information. Typically Hawks, gatekeepers feature both in command economies – such as the case of the Soviet biscuit factory – and in competitive economies when there is a surplus of suppliers relative to demand. This facilitates a propensity to bribe buyers, as in municipal purchasing and, notoriously, the international arms trade. Globalisation has, with the spread of IT, reduced monopolistic control of this factor and increased the number of gatekeepers.

To sum up: the various types of part-time crime cannot be treated homogeneously, though all require a suspension of the researcher’s own moral judgement. The various types must first be identified, and will then demand very different methods of research. This in turn requires an effective means of classifying them. Any effective classification must be both exclusive and exhaustive, and the method suggested is a development of a classificatory schema derived from anthropology.
When we applied this approach to part-time crime, we deduced four broad types with different principles applicable to each of the four work cultures. These were discussed and then considered in the context of change – particularly technical change and change arising from the increasing pace of globalisation.

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See also:


Intermediation (partial compliance with the rules by creating invisibility)

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David Jancsics


### 6.8 Wāṣṭa (Middle East, North Africa)

#### James Redman


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Nicolas Martin


**6.10 Torpil (Turkey)**

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6.11 Gestión (Mexico)
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