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**Abstract proposal for: Graduate Workshop in Political Economy at Sciences-Po, July 6-8, 2015**

**Title: Good Apples on Bad Trees: Causes of Variation in the Levels of Corruption and Government Performance in Spanish and Italian Cities**

In a context where corruption is widespread and an almost costless activity, why do some local politicians and economic actors choose not to rely on corruption for maintaining power and accumulate wealth on the expenses of citizens and other business? In other words, why do some cities opt out from corrupt exchanges and become: good apples on bad trees? I argue that we should look at the cost of corruption for government, combined with the capacity of the business sector to cooperate and press the government for the investment in state capacity (autonomous bureaucracy and long term planning). Corruption creates large costs to SMEs and to ordinary citizens, while it generates rents for clients and cronies. Thus, I contend that the interaction between economic opposition and government stability will explain different investment in administrative capacity and thus cause the variation in levels of corruption. I test this argument qualitatively using a measure of corruption in eight Spanish and Italian municipalities. Italy and Spain are two countries with the highest internal variation of quality of government compared to the rest of the European countries. In other words, these two countries combine highly corrupt regions and cities with regions and cities with high quality of government and low corruption. I propose a mixed method design where I combine a small-N comparative historical analysis on the limited number of cases (4 couples of cities) using process tracing. More specifically, using as my universe of analysis Italian and Spanish cities, I pair them according to several parameters including their economic structure and different level of corruption in order to compare the relative strength of business coalitions and patterns of interaction with political power which lead to different outcomes in terms of corruption. In the last part of the article I deal with the competing hypotheses, concretely those of social capital and mafia and I present several recommendations for policy makers.

Keywords: corruption, business associations, government stability, local government, collusion