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POLITICAL CLIENTELISM AND CORRUPTION AS ECONOMIC AND SOCIAL EXCHANGE

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Review

Abstract

Althout, scientific interest in the informal economy is from a recent date, there are already serious analyzes that define its forms, as well as standardized methods that measure its scope. In this text we will point out some theoretical dilemmas concerning informal economy as a sector emebeded deeply in the society as a whole. The informal economy sector can be understood as a rational response by people to the way of life, the environment, the way in which the institutions work, the economic development of society or the culture itself - despite the fact that some consequences have an irrational character (exploitation, discrimination, violation of human rights and freedoms). Special attention is paid to political clientelism and corruption as forms of informal economy with a special focus on the situation in R. of Macedonia.

Keywords: *informal economy, political clientelisme, corruption*

JEL: E26, K4

1. INTRODUCTION

In scientific literature, as well as in social practice, are used various names for the informal economy. Researchers and other social actors use different terms, that is: gray economy, black, hidden economy, shadow economy, irregular economy, and other terms. Although each of these terms has its own specificity and different connotation, it is common for all of them that they are outside the official

accounting of a given state and belong to the informal sphere. Given the fact that it is a phenomenon that is characteristic of almost all countries in the world, and that in some countries it is more present than in others, analysts avoid giving a general definition by pointing to the need for local definitions that will express regional specifics (Schneider and Williams, 2013). Without a precise definition of the informal economy, it cannot be measured as such. According to Schneider and Williams, the informal economy refers to the deliberate concealment (hiding from public agencies) of market economic operations that are essentially legal. Such hiding is made for the following reasons:

- avoiding paying especially the VAT or some other taxes,
- avoiding the payment of social security contributions,
- avoiding achieving certain standards required by the labor market, such as minimum wages, maximum number of working hours, safety standards, etc.,
- avoidance of compliance with certain administrative obligations.

This does not include the illegal, so-called underground operations and the informal (self-sustaining) household or family economy. Within the framework of regional analyzes, there is an attempt to define the informal economy (Center for Study of Democracy, Sofia, 2011) where the following types of (in) formal economy are differentiated:

- formal economy (legal and declared/reported),
- economy for own support (legal, but undeclared): household/family production, unpaid volunteer work, self-employed persons, and small businesses,
- illegal (black) economy (illegal and undeclared) which includes illegal operations or the unlawful production of goods, as well as the economic operations carried out by illegal entities,
- undeclared (gray) economy (legal, but not reported or not fully reported); this involves non-reporting or incomplete reporting of legal business operations, failure to report all hired staff, and failure to report full income, tax evasion, and avoidance of payment of social security and healthcare contributions.

The interest in systematic study of the informal economy in the Republic of Macedonia is of recent date. The very term informal economy for many people is unknown, or rather obscure. The term gray economy is often used. According to official documents, the informal economy refers to the deliberate avoidance of declaration/reporting (registration) of legal business operations in order to avoid taxation.¹

According to Martha Alter Chen, the informal economy sector does not represent a phenomenon separate from society as a whole. The informal economy sector is not

¹ Action Plan for reducing the informal economy, 2015, Ministry of Labor and Social Policy, R. of Macedonia.

a secondary economy that would complement the primary one. It is part of the socio-economic context in highly developed, but also in less developed economies. In the post-World War II period, long-term economic growth per se was believed to lead to a reduction in the informal economy.² However, both in developed and in underdeveloped countries, a significant increase in informal employment has been registered at the end of the 20th century. The transition from mass to flexible production has increased the number of atypical jobs that are below standard working conditions and without social benefits. There is also a growing number of small businesses and workers working from home to survive. Especially in transition economies when massive bankruptcy of large state enterprises occurs, many workers would accept informal employment just to survive. The informal economy in a Macedonian context means resistance to the institutions and government-created regulations, but at the same time the opportuneness of groups close to the decision-making centers (Martha Alter Chen, 2012).

In the analysis of the informal economy, we cannot but introduce the international aspect, that is, globalization. Small and medium-sized enterprises (that is, home-based and/or family-run small businesses) are very difficult to withstand global competition, and many are limited by the closed local environment and informality. The informal economy can be viewed as a sector that gives many people the opportunity to overcome poverty (Martha Alter Chen, 2012). This is especially true for women - who due to their low qualifications and inadequate education - have hard time finding work in the formal sector. Thus, the informal economy sector can be understood as a rational response by people to the way of life, the environment, the way in which the institutions work, the economic development of society or the culture itself - despite the fact that some consequences have an irrational character (exploitation, discrimination, violation of human rights and freedoms). We find one of the examples in unpaid family workers. In the Republic of Macedonia, 50% of the respondents said that they are unpaid family workers who do not have any social benefits. From the perspective of its actors, the informal economy means flexibility and innovation.

Research in the Republic of Macedonia shows that the reasons for the informal economy lie in the low confidence of the citizens towards the institutions and the resistance to the rigid regulations created by the government. 21.6% of the respondents would prefer to be an undeclared worker with a high salary – rather than a legally declared worker with a low salary, implying formally paid social security and healthcare contributions. In addition, an important reason is the opportunism of groups connected to decision-makers (CRPM, 2015). The informal economy is based on close ties and connections and represents the continuity of the traditional economy. Informal or undeclared workers - although uninsured, low paid, and dependent self-employed - are also seen as "survival experts" or

² A concept known as the Lewis Milestone, 1954.

"entrepreneurial survivors" (Gallin, 2001: p. 531-532; Valenzuela, 2001). This is especially specific for the Republic of Macedonia and its local transitional context. According to the research on the informal economy in Macedonia, 68.5% of the surveyed citizens believe that it is an inevitable part of everyday life in the country (CRPM, 2014). This in turn tells us that the informal economy sector has legitimacy and responds to the needs of a very wide market - becoming an economy by the poor for the poor.

Business operations in the informal sector can be "economically efficient and profitable, although they are small-scale and restricted by simple technologies, small capital, and lack of connections with the other ("formal") sector" (ILO, 1973). In many cases, they help maintain the subsistence of the most vulnerable groups in society.

The data on informal economy measurements contribute significantly to the analysis of such economy. There are various methods by which its volume is measured. Among the methods used is the calculation of the consumed electricity according to which the informal economy accounts for 24% of GDP. According to the Labor Force Survey (Novkowska, 2013), the informal economy in the Republic of Macedonia is 47% of the GDP, while it is 46.3% according to the Multiple Indicators - Multiple Causes (MIMIC) model. According to the studies conducted in the Republic of Macedonia (CRPM, 2015), 40% of the respondents pointed out that they receive a substantial part of their salaries paid directly in cash, that is, not via bank account. However, it should be noted that the basic feature of the Macedonian economy is its low GDP, which is only 37% of the European Union average or mere \$4,000.

In the theoretical consideration of the informal economy, there are various theories about the causes that trigger it. According to the dominant, neoliberal paradigm, the informal economy is on the rise in circumstances when there is excessive regulation of the economy (rigid red-tape procedures). Economic operators in such circumstances - to avoid expenses (and time for registration as an expense) - operate in an informal manner. According to analysts who belong to the school favoring social regulation of the economy - the informal economy is on the rise in open and free market conditions. The Eurofound report (Eurofound, 2013) - where the link between the economic recession in 2008 and the development of the informal economy in the 27 EU member states was explored - shows that the neoliberal type of austerity measures (tax cuts, deregulation and minimal intervention by the state) is associated with the increased volume of the undeclared or unregistered economy.

2. INFORMAL ECONOMY AS POLITICAL CLIENTELISM

The informal economy becomes specifically expressed in context of political clientelism and corruption. According to Jean Francois Medard³, the term clientelism refers to an established personal relationship of reciprocity and interdependence between two individuals as such. Clientelism was mentioned even in the classical Greek and Roman period. In ancient Rome, a client was considered a person with an inferior social status in relation to his social sponsor or 'boss' from whom he received material support or other kind of protection, and in return, such client showed loyalty, gave election support, or showed public political approval/consent at the Roman forums. In the beginnings of the Western liberal democracy, the capacity of local politicians was measured according to the volume of favors that they could deliver to their local clients, that is, supported persons. Clientelism develops particularistic relationships, as opposed to the universalistic ones that are provided for by the laws. A person develops this kind of particularistic relationships because he expects a certain favor in return, because he is a kin or a member of the same group (clan, tribe, or party). A typical example of clientelism is when a poor man chooses a wealthy man for a godfather or main wedding witness; afterwards the entire family of the poor man expects social protection and social sponsorship from the wealthy man (Medard, 1976). In modern circumstances, clientelist relationships have started losing family or religious peculiarities thus becoming anonymous and mainly based on the labor market. In addition, modern clientelism has lost its personal aspects transforming itself into an impersonal political machine, that is, clientelist relationships have become institutionalized with stable expectations by the participants (S. Cvejić, 2016).

Political clientelism is the instrumentalization and introduction of personal relationships in the domain of politics. Clientelism is essentially a process of barter, trade, or rather an exchange, while political clientelism is a special kind of social exchange where there is a debtor-creditor relationship between two political entities in unequal social position. Thus, a person with a higher socioeconomic status (for example, a manager or social elite member, a 'boss') offers protection or some other favor to a person with a lower status (client) who, in turn, offers his loyalty, support or is at the personal disposal of the boss. The client - that is, the person with a lower status who receives a certain favor - loses his or her personal independence. If such relationships are practiced within the family and in context of extended family kinship and in-laws, then it is a matter of nepotism; on the other hand, if the scope of the relationship becomes very large, then one can talk about tribalism. Political clientelism thus represents an exchange of informal character and goes beyond formal principles of operation. The content of the social

³ Jean-François Médard, LE RAPPORT DE CLIENTELE, du phénomène social à l'analyse politique, Revue française de science politique, Année 1976, Volume 26, Numéro 1, pp. 103-131.

exchange varies accordingly. It could be employment, certain extraordinary income, commission fee, membership of various committees, customs relief, tax evasion, obtaining a prestigious function, and other things.

Clientelism as a concept approaches the framework described by Marcel Mauss in his book called *The Gift*. Clientelism means a reciprocal exchange between two persons, or groups that establish a personal relationship, in the past visibly based on kinship or tribal ties, on shared religious affiliation or status affiliation, as in the case of the exchange of the so-called potlatch. Although this exchange assumes a form of gift giving, that is, it is voluntary - it is nevertheless mandatory; free of charge - but with a calculated interest. According to Mauss, it is about arbitrary (informal) legitimization of the exchange in terms of the scope, type, or time of giving, which P. Bourdieu calls *symbolic* violence. The economic dimension here has variable amplitude. This kind of exchange cannot be reduced to its economic dimension, which is obvious in reciprocity - the obligation to give a gift, the obligation to receive the gift, and the obligation to reciprocate with a gift. Relationships in this traditional exchange are interpersonal, in most cases bilateral, followed by affective association, with many rituals where the usefulness comes to the foreground.

The revival of clientelism, especially present in transitional societies, is the outcome of the revival of traditional relationships in the domain of management of public goods and the way of accessing them. The transition to Western-style democracy is slow. A specific approach to institutions is characteristic - as if these institutions were constructed by an external factor, as a kind of implant that is unable to perform the right function. Here it is about the institutions of different kind: educational, health, social, and other. This approach is shared by the political elites and by the citizens who reproduce the clientelistic relationship whose intensity over time is multiplied.

According to Peter Blau, political clientelism is an exchange followed by power and debt that cannot be paid back. If there is a possibility to pay the debt, then the clientelist relationship could be terminated as such. From a psychological point of view, persons who hold some public office are, in a way, called to help, in the sense of noblesse oblige, while their clients are called to pay back or reciprocate, if with nothing else then with loyalty. In this context, operates the principle: *'I will help the one who has helped me'*. This shows the main difference that exists between the clientelism and the violent coercion, although in clientelism, compulsion is not excluded.

The terms political clientelism and corruption are often considered identical, primarily because of the effects, that is, the phenomena that they cause in social practice. The term corruption is associated with a single market transaction and basically represents an economic exchange as such. Political corruption is a

political decision so made that is aimed at gaining money, while political clientelism is an exchange of favors for the sake of obtaining votes in the elections.

The main goal of political clientelism is to maintain and be in power, as well as material benefits that are acquired at the expense of the state. Political clientelism is a kind of "disease" of the state, and therefore, there is an unproductive spending of public resources with a strong tendency to slow down the economic development as a whole.⁴ Over time, the clientelist system becomes rooted in culture, gaining legitimacy, while the entire economy is transformed into a kind of lease-and-rent-based system. In societies in which clientelism is deeply rooted in culture, economic operators, instead of investing in economic activities, tend to engage in the chain of transactions by becoming accomplices. Basically, the whole economy comes down to being a client, a mediator, an expert, or the like, to get hold of some of the public resources.

Studies carried out in African countries offer a clearer picture of the characteristic features of clientelism and its consequences. Namely, in these countries, political clientelism often leads to political crises, but also to civil violent fights. Namely, since the clientelist states lose the capacity for productive management of public spending, they show "thirst" for new resources; such "thirst" is settled by the introduction of new taxes or new foreign credits, which are followed by exercising even greater control and with new administrative repression. Under rare resource conditions, power tends to be highly centralized, down to the very leader and a narrow elitist core around him. The clientelist strategy is, in essence, severely discriminatory in relation to other people who have not become involved in the clientelist system. The exclusion from the system creates great dissatisfaction with non-clients becoming involved in the opposition, which then acquires new potential to launch a political crisis to win power and access to resources from which they were excluded. Thus, the system - where political clientelism becomes dominant - starts to crumble from within, i.e., it becomes self-destructive. This mechanism of the functioning of clientelism in Africa is recognized in our environment as well. The data and analyses of our context are not significantly different. In the transition countries, along with the development of democratic institutions, measures for strict fiscalization and income control have also been on the rise. There is a complete centralization of the budget revenues and expenditures by the executive branch and the creation of institutions for the violent collection of debts that are carried out by pressure, often of a physical nature. In essence, the weakened economy is the new energy of clientelism.

The clientelist state is a patrimonistic state. This is characterized by the privatization of the state where the holders of certain public offices (political or

⁴ Cartier-Bresson, 2010, «Le comparatisme à la croisée des chemins : La corruption entre analyse normative et positive». In: Le comparatisme à la croisée des chemins Autour de l'œuvre de Jean-François Médard. Karthala, 2010

administrative) use their position and their powers as if they were inherited, or as if they were some kind of personal property.⁵ This is about the usurpation of powers and public goods by the holders of public offices. This leads to the formation of a so-called *political class*, whose members use the state as a source of power, social status, income, wealth, and other benefits. The main goal of the patrimonistic state is to maximize the personal benefit of the so-called political class and maintenance of power by giving certain concessions to its clients. Patrimonistic states do not create their budgets according to certain economic criteria, but in context of how to maintain power (Buchanan and Wagner, 1977).

Very often as clients of political elites are the companies, that are tolerated in terms of non-payment of tax. This, on the other hand, leads to a reduction in the volume of public goods, but also to an increase in informal employment, which are seldom controlled by tax and labor inspections.⁶ According to European surveys, 9.7% (EWCS, 2013) of the respondents answered that non-registration of workers is the most serious factor of the informal economy. Salary given in cash-money envelope. According to the labor force surveys, 28.3% of the Macedonian net average salary (345 EUR) is received in cash-money envelope (CRPM, 2015).

According to studies conducted in Serbia, a significant segment of public resources is transferred into the hands of individuals via public enterprises and public procurement. Trustworthy and verified party members regardless of their education or expertise are appointed as general managers of public (state and municipal) enterprises, as well as members of their executive boards; that is, party activists who use public resources for individual gain or for the party in power (SeCoNs, 2016). Often, tenders are awarded to economic operators who are close to the political elites. There is a well-developed practice of adjusting the tender and public procurement criteria according to known and familiar participants, by informally informing such known participants about the conditions.

In the Republic of Macedonia, political clientelism is promoted by the high rate of unemployment that creates enormous pressure for employment especially in the public sector. Party-initiated employments in the Macedonian public sector set the regional records. The party headquarters, which are located in each town district, in each settlement or larger village, have become employment centers for party members and party sympathizers. This form of clientelism carries out a complete devaluation of human resources, emphasizing party loyalty and party commitment as crucial in finding a job. Informality here is reflected in the selection of jobseekers and the suspension of objective criteria. Such employment weakens the economy by stimulating the youth to be lazy and politically opportunistic, rather

⁵ Médard, J. F., D'Etat Patrimonialisé, Politique africaine, n° 39, septembre 1990, p. 25-36.

⁶ Cartier-Bresson, J., Tiers-Monde A., Corruption, libéralisation et démocratisation, 2000, Volume 41, Numéro 161, pp. 9-22.

than promoting entrepreneurship, skills development and labor productivity development. The non-clients, without alternative, are inclined to leave the state.

According to the research made by the Center for Research and Policy-Making in the Republic of Macedonia (CRPM, 2015), the country is dominated by a politically motivated economy. Thus, 33% of imports relates to companies close to the government that do not pay customs duties. In turn, they finance the political parties (CRPM, 2015). In this context, one should note that only six companies account for 50% of total imports into the country. According to the same survey, 69% of companies face informal or undeclared competition.

The reasons for clientelism are found in pre-industrial traditions and domination of the pre-modern type of logic, in the sense when Max Weber speaks about the various sources of power.

3. POLITICAL CLIENTELISM AND CORRUPTION

Clientelist relationships show corruption at the moment when clientelism - as social exchange from the domain of the private - is transferred to the public sphere (politics or administration). Corruption means the interference of private relationships in relations that need to be public. In ancient Rome, clientelism was not considered an illegitimate practice, in contrast to corruption that was illegitimate and illegal. Corruption is an exchange based on monetary transactions that take place in short time, while clientelism implies relationships of lasting character based on loyalty and friendship.

The notion of corruption is closely related to democracy, what Max Weber calls institutionalization, that is, the rule of law or the law-based state. Lack of transparency and lack of political accountability cause and trigger corruption as such. One can talk about existence of corruption in democratic states because the reasons for its existence lie in the evasion of democratic mechanisms and in the violation of human rights and freedoms by which all individuals are equal. According to Bresson, there is old and new type of corruption. The old type of corruption is characteristic of the Western states and comes to the fore at the time of state interventionism (protectionism) where it gives the right to make certain decisions for allocation of public funds to certain offices and functions. The new type of corruption is characteristic of states that adopt the Western system of democracy and allow the elites to deviate from the proclaimed goals. The two types can coexist, but in transition countries, the causes lie in poverty, the scarcity of public goods, incompetent administration, low wages in the administration, and clientelism leading to the appropriation of scant public goods.

Clientelism is based on particularism and protections that are contrary to the formal universalism of laws. Clientelism is associated with a particularistic redistribution

that deviates from the public interest. Analysts⁷ often cite the example of some African countries where the relationship between corruption and political clientelism is clearly visible. There, political power is maintained through a *rational* practice of distributing public goods (employment, protection, permits, etc.) in return for political support. The money - which the government collects from corrupt economic operations, especially through the international economy - must be reinvested in political like-minded people (that is, the political clients). If money is fully appropriated or deposited abroad without any part of them being distributed locally, then the position is threatened, and power of governments and elites becomes weaker. The stability of political power has its own dear price.

Corruption has not only an economic side, but also a political one because it supports a wide range of political clients who are necessary to support the policies of the government. When a head of state or of government appoints someone as director of a public company or a state institution, then he makes a private investment expecting broader support. When corruption assumes large scale, social ties with political supporters can break up, thus contributing to the loss of the legitimacy of this necessary core. It is thought that high corruption contributed to the collapse of ancient Rome because the clientelist relationship with the Roman military and the Roman citizens that were their supporters was terminated.

It can be concluded that corruption causes clientelism and vice versa. If corruption is widespread, it is then very difficult to recognize and define such corruption. In such a situation, it is not possible to separate the corrupted from the others who corrupt. Apart from the economic consequences of corruption that are most visible in the domain of inadequate consumption and the destruction of public goods for non-productive purposes, corruption also negatively affects the use of human resources by devaluing competences and talents. In conditions of massive corruption, quality human resources - instead of being engaged in productive (entrepreneurial) operations - are engaged in a corrupt employment system or seek a way to be engaged in transactions involving the distribution of public goods.

⁷ Médard, J. F., Clientélisme politique et la corruption, Revu Tiers Monde t. XLI, No 161, 2000.

Table 1. Key problems in the Republic of Macedonia (2016) (percentage of the population that identified the corresponding factors as a problem)

Category	
1. Unemployment	50.7%
2. Political instability	46.0%
3. Poverty	39.3%
4. Low income	39.3%
5. Corruption	30.9%
6. High prices	23.2%
7. Crime	17.4%
8. Ethnic problems	12.3%
9. Pollution of the environment	9.6%
10. Healthcare	7.3%
11. Education	5.4%

Source: MCIC Report on Corruption Assessment, 2016.

According to the same research, the main reasons for the prevalence of corruption are found in political elites and their thirst for rapid wealth, then in the inefficiency of the judicial system in the fight against corruption, and in the disregard of the laws. In the Macedonian case, there are not enough arguments to confirm the thesis that corruption is a phenomenon inherited from the former socialist regime, as it is the leading thesis in the Serbian research (Cvejić, 2016).

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