Editorial

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Biographical notes: Carlo Bellavite Pellegrini has been Associate Professor of Corporate Finance at the Catholic University, Milan, since 2004. He is a member of research centres (Applied Economics Research Center – CSEA; ELS Paolo Baffi – Centre of Central Banking and Financial Regulation; CeMaFiR – Centre for Macroeconomic & Finance Research; Centre for Research on Cooperation and Development) and associations (AIDEA, European Corporate Governance Institute – ECGI; NedCommunity; ADEIMF). He is the author of five monographs and scientific articles at national and international levels. His main research interests include issues of corporate finance and corporate governance, law and finance and law and economics, political connections and corruption.

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Although until the 1980s scientific research on corruption was largely limited to the fields of sociology and criminal law, starting from that moment, there has been an increase in studies on the relationship between corruption and economic performance, with respect to both public and private sectors.

In the public sector, corruption is supposed to reduce the efficiency of public services, to jeopardise citizens' trust in institutions and to increase transaction costs. In this framework, corruption, acting as a negative externality, creates a situation in which the market fails to allocate resources efficiently. With regard to the private sector, corruption has a relevant effect on the size of the informal economy, increasing the costs of creating new businesses and surviving in the market within the formal economy. Hence, higher costs are connected to a deterioration of the firms' financial position and expose them to higher default risks.

Lower firms' performances and a decrease in the levels of governance effectiveness weaken financial institutions, amplifying the effect of local crises in an interconnected and globalised financial market.

According to these recent developments in Law and Economics literature, this double special issue of *International Journal of Monetary Economics and Finance* (IJMEF) includes nine papers about the relationship between corruption and economic performance in private or public sectors.

This issue has been realised in memory of our colleague and friend Professor Marco Arnone, former researcher of the International Monetary Fund and founder of the CeMaFir (Centre for Macroeconomics and Finance Research). The CeMaFir refers to the Arnone Bellavite Pellegrini Foundation, in which Marco was the cofounder. The motivation for this special issue stems from Marco's multifaceted contribution to macroeconomics, financial markets dynamics and in his seminal research in the fields of 'Shadow Economics'. He devoted the last part of his scientific career on the investigation of the relationship between economic development and corruption with a general attention to the economic and social system as a whole, taking into account the interaction between the firms' behaviour and the macroeconomic context. For Marco, the intellectual challenge of the economic research was the natural prosecution of his deep involvement in any sort of civic commitment. This choice of life and his endless engagement for the others, whoever they were, had been framed in his youth during the years of his classical studies.

Hence, the special issue develops along two separate, but complementary guidelines, analysing the relationship between corruption and economic and financial performances on both micro- and macroperspectives. Finally, two papers extend the concept of corruption to the economy of crime.

The first three papers analyse the relationship between financial performances and corruption indices on a micro-level point of view, especially focusing to the main agents of financial markets: banks, insurance companies and other financial institutions.

More in details, Bellavite Pellegrini and Pellegrini, taking into account a panel of European-listed financial institutions between 1996 and 2008 and adopting the Corruption Perception Index (CPI) as a suitable measure of the level of corruption, address the impact of corruption on the financial performances of firms, highlighting the existence of a negative relation between CPI and companies' financial performances. In other words, the lower the level of corruption, the higher the performances in financial sector is.

In the second paper, Müller and Uhde investigate whether country's external governance quality affects the outcome of local microbanks' economic success in terms of profitability and sustainability. Evidence underlines as external governance indicators (with a strong overview on corruption indicators) and the microbanks' social success are strongly connected. In this context, the analysis reveals that country's political stability, governance effectiveness, regulatory quality and rule of law are key elements of external governance affecting the MFIs' function.

Part I of the issue concludes with a paper by Fadzlan Sufian that provides empirical evidence on the impact of economic freedom on efficiency using data from Indonesian banking sector during the post-Asian financial crisis period of 1999–2008. In particular, the paper recognises to freedom from corruption a primary role in determining efficiency of banks, basing the analysis on quantitative data that assess the perception of corruption in the business environment.

Part II of the special issue includes four papers, focusing on the role of corruption in a systemic and macro-level perspective, mixing a methodological and an applied point of view.

The first paper of part II is co-authored by Petrarca and Ricciuti and investigates the roots of corruption with respect to the Italian provinces, assuming these origins are strictly connected with the features of the government of the different regions at the end of Middle Age. According to the authors, history and traditions define the quality of social capital; then, social capital determines the level of corruption; finally, corruption affects economic performance. The paper takes a significant role in the special issue essentially for two reasons: on the one hand, the paper indirectly investigates the historical foundation of corruption and, on the other hand, it uses historical background to investigate the possible endogenous relation between corruption and economic growth. An instrumental variable approach establishes that causality essentially runs from corruption to economic performance.

The correct direction of causality established by Petrarca and Ricciuti legitimates the empirical strategy of the subsequent contribution by Sironi-Tornari. Following the path of the effect of corruption on economic and financial performances, Sironi and Tornari focus their attention on public finance, giving new evidences on the positive correlation between CPI and inefficiency levels of public expenditure: the higher the level of corruption and political stability, the lower the efficiency of main indicators of public finance is.

If Sironi and Tornari focus their attention to Europe, a region characterised by a relative homogeneity in terms of economic development, Lameira et al. assess the significance of governance and corruption impact among countries with more heterogeneous degrees of financial development. Multiple regression analysis and panel data modelling were used to discover a positive relation between levels of governance and the economic indices.

Finally, the last paper of part II aims at unifying the notion of corruption adopted in part I and part II. It has been written by Bonanomi and Osmetti and offers a pure methodological contribution, implementing sophisticated and unconventional statistical techniques, to elaborate a new corruption index based on individual attitudes, even if computed at country level; results are summarised in a country classification that underlines as the ranking of countries in terms of control of corruption does not change if we compare the new index with those obtained by international institutions such as Transparency International and the World Bank.

Finally, the last two papers, which ideally form part III of the issue, are written by Caruso and Baronchelli, and Montani and are the clearest tribute to Marco Arnone's role in the scientific debate around the link between corruption, crime and economic performance. These papers address the impact of crime on finance and economic growth.

In particular, two steps are analysed in a sequence. Caruso and Baronchelli focus on the linkage between corruption and crime on an applied point of view. This linkage, as underlined by the authors, has been underestimated because corruption is often analysed as a white-collar crime and not characterised by violence. Recently, a theoretical connection has been suggested to highlight that corruption and crime can be considered strategic complements. Hence, authors empirically test the hypothesis of proximity between crime and corruption, proving that past levels of corruption are positively associated with current levels of crime; finally, Montani theoretically supports the hypotheses of Caruso and Baronchelli and concludes that organised crime and corruption overlap and reinforce each other. Given the links between organised crime and corruption, and recalling the seminal work by Marco Arnone entitled "Economia delle Mafie; Dinamiche economiche e di Governance" Montani attempts to identify the "*criminal fabric and its resources that pollute heavily economics, politics and the life of the country, reducing the potential for human, economic and civil development*".