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**Systemic Corruption in an Advanced Welfare State: Lessons from the
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Abstract:

The Quiet Revolution in the 1960s propelled the province of Québec onto the path of greater social justice and better government. But as the evidence exposed at the Charbonneau inquiry makes clear, this did not make systemic corruption disappear from the construction sector. Rather, it adapted to its new institutional environment and was significantly shaped by the incentives structure it provided. The patterns of corruption emerging from the Charbonneau inquiry bear the imprint of the so-called “Québec model” inherited from the Quiet Revolution in at least three ways: (i) in the economic nationalism that made public policies partial towards French-speaking and Québec-based businesses, notably in the engineering sector, with major firms like SNC-Lavalin using their dominant position as “national champions” to engage in cartel-like practices to raise the price of construction projects; (ii) in the Jacobinism that strongly centralized power at the provincial level and left municipalities underdeveloped in terms of bureaucratic capacity, thus making them easy prey for corrupted interests, and (iii) in the sovereignist/federalist cleavage that, since the 1970s, has made Québec businesses dependent on the Liberal Party for political stability and has allowed party operators to extract a rent from businesses in return.

Keywords:

Systemic corruption, institutional change, culturalism, Quiet Revolution, new institutional economics, functionalism, social partnership, varieties of capitalism, embeddedness, economic nationalism

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***Systemic Corruption in an Advanced Welfare State:
Lessons from the Québec Charbonneau Inquiry***¹

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ABSTRACT: The Quiet Revolution in the 1960s propelled the province of Québec onto the path of greater social justice and better government. But as the evidence exposed at the Charbonneau inquiry makes clear, this did not make systemic corruption disappear from the construction sector. Rather, it adapted to its new institutional environment and was significantly shaped by the incentives structure it provided. The patterns of corruption emerging from the Charbonneau inquiry bear the imprint of the so-called “Québec model” inherited from the Quiet Revolution in at least three ways: (i) in the economic nationalism that made public policies *partial* towards French-speaking and Québec-based businesses, notably in the engineering sector, with major firms like SNC-Lavalin using their dominant position as “national champions” to engage in cartel-like practices to raise the price of construction projects; (ii) in the Jacobinism that strongly centralized power at the provincial level and left municipalities underdeveloped in terms of bureaucratic capacity, thus making them easy prey for corrupted interests, and (iii) in the sovereignist/federalist cleavage that, since the 1970s, has made Québec businesses dependent on the Liberal Party for political stability and has allowed party operators to extract a rent from businesses in return.

¹ The Charbonneau Commission, officially the Commission of Inquiry on the Awarding and Management of Public Contracts in the Construction Industry, is an ongoing public inquiry into potential corruption in the management of public construction contracts. The Commission was created on 19 October 2011 by the provincial Liberal government of Jean Charest, and is chaired by Justice France Charbonneau. The mandate of the Commission is to: (1) examine the existence of schemes and, where appropriate, to paint a portrait of activities involving collusion and corruption in the provision and management of public contracts in the construction industry (including private organizations, government enterprises and municipalities) and to include any links with the financing of political parties; (2) paint a picture of possible organized crime infiltration in the construction industry; and (3) examine possible solutions and make recommendations establishing measures to identify, reduce and prevent collusion and corruption in awarding and managing public contracts in the construction industry. It is due to report in November 2015.

INTRODUCTION

The *Maclean's* controversy in 2010 over its front-page illustration of “Bonhomme Carnaval” holding a suitcase overflowing with cash portraying Québec as “the most corrupt” province in Canada, is a reminder of the role of culture in perceptions of corruption. The affair ignited passionate debates at the time, leading to a unanimous House of Commons motion denouncing the magazine for its “prejudice” and “denigration of the Québec nation”. Pressure was such that the magazine’s parent company felt compelled to express its “sincere regret for any offence that the cover may have caused”. But the fact that the words “most corrupt” were first applied to Québec by Samuel Huntington in his 1968 book *Political Order in Changing Societies*, went largely unnoticed. A quick look at his work would have revealed that debates about culture and corruption have their origins in broader theoretical arguments in the social sciences regarding the causes of political and economic development.

From his early contributions to later writings on the “clash of civilizations”, Huntington was known for his “culturalist” position, treating culture as an explanatory variable to show how cultural attitudes and beliefs hindered or enabled “progress”.² Conceived as a set of values and customs that purportedly distinguish one group from another, this concept of culture was prominent in modernization theory.³ In the 1960s Almond and Verba produced one of the most influential understandings of culture in terms of “orientations toward the political system”, whereby some populations had “civic cultures” while others did not.⁴ The West had a “participant” political culture and a “parochial” culture was more widespread in the developing world.

In Canada, similar arguments informed the depiction of Québec’s political culture as either “tribal”⁵ or “a case bordering on amoral familism”⁶, a concept developed by Banfield to account for the “backwardness” of a southern Italian village.⁷ In a polemical analysis of poverty in a small Italian village, Edward C. Banfield (a University of Chicago political scientist who served as advisor to several Republican presidents) proposed that strong kinship and family ties may induce an “amoral familism”, defined as a social equilibrium in which people care exclusively about their immediate family, exploit those outside the family, and expect everybody else to behave in the same

² Jean Terrier, “Culture et types de l’action sociale” (2002) 40 *Revue européenne des sciences sociales* 141 at 153; Lisa Wedeen, “Conceptualizing Culture: Possibilities for Political Science” (2002) 96 *The American Political Science Review* 713 at 728.

³ Lucian W. Pye & Sidney Verba, eds. *Political Culture and Political Development* (Princeton: Princeton University Press, 1965); Ralph Heintzman, “The Political Culture of Quebec, 1840-1960” (1983) 16 *Canadian Journal of Political Science* 3 at 59.

⁴ Gabriel Almond & Sidney Verba, *The Civic Culture: Political Attitudes and Democracy in Five Nations* (Princeton: Princeton University Press, 1963).

⁵ Robert R. Alford, *Party and Society: The Anglo-American Democracies* (Chicago: Rand McNally, 1963) at 298.

⁶ Kenneth M. Gibbons, “The Political Culture of Corruption in Canada” in Kenneth M. Gibbons & Donald Rowat, eds, *Political Corruption in Canada: Cases, Causes and Cures* (Toronto: McClelland & Stewart, 1976) at 241.

⁷ Edward C. Banfield, *The Moral Basis of a Backward Society* (Glencoe: The Free Press, 1958).

fashion. Banfield's thesis provoked considerable debate about the nature of "familism" and the role of culture generally in preventing or facilitating economic development⁸.

Among the other causes of corruption emphasized in culture-based approaches, generalized trust, religion and acceptance of hierarchy play a crucial role.⁹ Societies that cultivate secular-rational attitudes towards authority are perceived to be less corrupt than those where "particularistic" values dominate.¹⁰ La Porta and his colleagues have argued that the Protestant religion, being relatively less hierarchical when compared to other churches and religions, is less prone to tolerate power abuses and corruption.¹¹ More hierarchical religions are said to encourage corruption because they discourage civic engagement.¹² Higher levels of corruption are reported in countries that have a "collectivist" orientation¹³ and higher levels of "power distance"¹⁴, defined as the extent to which members of society are willing to accept inequality.

Political culture accounts have (rightly) come under growing criticism for their stereotyping of entire peoples and their tendencies toward cultural essentialism¹⁵. In these accounts, culture is associated with communities typically defined by either geography, nationhood, religion or race and ethnicity. Culture is portrayed as so deeply rooted, so fixed, such a quintessential trait of a specific group that it almost seems like a "natural" trait¹⁶. In recent years, scholars have paid greater attention to alternative conceptions of

⁸ G. A. Marselli, "American Sociologists and Italian Peasant Society" (1963) 3 *Sociologia Ruralis* 319 at 338; William Muraskin, "The Moral Basis of a Backward Sociologist" (1974) 79 *American Journal of Sociology* 1484 at 1496; A. J. Wichers, "Amoral Familism Reconsidered" (1964) 4 *Sociologia Ruralis* 167 at 181.

⁹ Abigail Barr & Danila Serra, "Corruption and Culture: An Experimental Analysis" (2010) 94 *Journal of Public Economics* 862 at 869; Martin S. Lipset, Martin & Gabriel S. Lenz (2000). "Corruption, Culture and Markets" in Lawrence E. Harrison & Samuel P. Huntington, eds, *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000) 112 at 124; Ahmed Seleim & Nick Bontis, "The Relationship Between Culture and Corruption: A Cross-National Study" (2009) 10 *Journal of Intellectual Capital* 165 at 184.

¹⁰ Alina Mungiu-Pippidi, "Controlling Corruption Through Collective Action" (2013) 24 *Journal of Democracy* 101 at 115; Bo Rothstein & David Torsello, "Bribery in Preindustrial Cultures: Understanding the Universalism-Particularism Puzzle" (2014) 70 *Journal of Anthropological Research* 263 at 282.

¹¹ Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer & Robert Vishny, "Trust in Large Organizations" (1997) 87 *American Economic Review* 333 at 338.

¹² Leila Shadabi, "The Impact of Religion on Corruption" (2013) 12 *The Journal of Business Inquiry* 102 at 117.

¹³ Nina Mazar & Pankaj Aggarwal, "Greasing the Palm: Can Collectivism Promote Bribery?" (2011) 22 *Psychological Science* 843 at 848.

¹⁴ Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Beverly Hills CA: SAGE Publications, 1984).

¹⁵ Viewing cultural traits as primordial qualities, likening them to biological or genetic factors, is known as essentialism. *Essentialists* see culture as important and determinative, and at least semi primordial - that is, so deeply rooted in history, religion, and social organization as to be highly resistant to both change and variation. (e.g., studies of national characters and cultures). See Stephen Fuchs, *Against Essentialism: A Theory of Culture and Society* (Cambridge MA: Harvard University Press, 2001).

¹⁶ Jonathan Allen, "The New Culturalism of James C. Scott" (1999) 93 *Theoria: A Journal of Social and Political Theory* 53 at 82; Harry Eckstein, "A Culturalist Theory of Political Change" (1988) 82 *The*

culture as “practices of meaning-making”.¹⁷ They have emphasized how people are not born *with* a culture but *into* a culture that has to be created by humans and passed on to future generations through processes of socialization.¹⁸

Old culturalist habits die hard, however. They are still prevalent in anticorruption theory and research, notably, as discussed next, around the concept of “systemic corruption”, which emphasizes the informal and deeply embedded cultural beliefs and practices that sustain corrupt exchanges and their reproduction over time.¹⁹ I argue in the following pages that “systemic corruption” provides a faulty conceptual foundation for building a credible and generalizable theory of political and institutional change in anticorruption research.

Systemic Corruption and the Challenge of Explaining Change

The Québec case poses an interesting challenge for anticorruption studies. While the *Maclean’s* story clearly depicted an image of ubiquitous corruption, Canada’s other large national print media outlet, the *Globe & Mail*, in an analysis of Québec’s welfare state and its family-friendly policies, described the province as a “little Sweden of North America”.²⁰ Québec effectively ranks high on human development indexes²¹ and has developed since the 1960s an independent bureaucracy organized along Weberian principles that exercises considerable policy-making power.²² And yet testimonies at the Charbonneau inquiry point toward strong evidence of systemic corruption at the municipal level, in the engineering sector, in political financing, and in the quasi-monopoly jointly operated by the Fédération des travailleurs du Québec (FTQ), the province’s most powerful union, and a construction magnate who acknowledged having had ties with the Montréal mafia.

How can this be? Systemic corruption is not typically associated with developed countries and advanced welfare states, but with extreme cases, as in most of the post-

American Political Science Review 789 at 804; Jens-Martin Eriksen, “When Culture Becomes Political Ideology” (2013) 163 *Telos* 131 at 146.

¹⁷ Michèle Lamont, “Meaning-Making in Cultural Sociology” (2000) 29 *Contemporary Sociology* 602 at 607.

¹⁸ Tony Bennett & John Frow, eds, *The SAGE Handbook of Cultural Analysis* (London: SAGE Publications, 2008).

¹⁹ Roberto Laver, *Systemic Corruption: Considering Culture in Second-Generation Reforms* (Harvard University, Edmond J. Safra Working Papers, No. 45, 2014).

²⁰ Erin Anderssen & Kim Mackrael, “Better Daycare for 7\$ /Day: One Province’s Solution for Canada”, *The Globe and Mail* (18 October 2013) online: The Globe and Mail <<http://www.theglobeandmail.com>>

²¹ Luc Godbout & Marcelin Joanis, “Vivre mieux...au Québec? Mesurer et comparer le bien-être à l’échelle internationale” in Luc Godbout, Marcelin Joanis & Nathalie de Marcellis-Warin, eds, *Le Québec économique* (Québec: Presses de l’Université Laval, 2011) 19 at 53.

²² James Iain Gow, *Histoire de l’administration publique québécoise* (Montréal : Presses de l’Université de Montréal, 1986); Jacques Bourgault et Stéphane Dion, “Public sector ethics in Quebec: The contrasting society” in John W. Langford and Allan Tupper, eds, *Corruption, character, and conduct: essays on Canadian government ethics* (Toronto: Oxford University Press Canada, 1994) 67 at 89.

Soviet states for instance.²³ How can the “little Sweden of North America” also be the “most corrupt” province in Canada? This is the puzzle I address in this paper. I use the Québec case and interpret the evidence exposed at the Charbonneau inquiry to build a more robust model of institutional change in anticorruption studies. My key theoretical point is that *the shift of societies from a systemically corrupt social order to a non or less corrupt one is not irreversible and never achieved definitively*, as discontinuous models of institutional change lead us to believe. Too often in corruption research scholars explain change by pointing to exogenous shocks (e.g. wars, revolutions) that bring about radical institutional reconfiguration. Enduring historical pathways are thus punctuated by sudden and revolutionary moments of agency and choice.²⁴ But thinking of change as involving the “breakdown” of one set of institutions and its replacement with another makes the analysis blind to the cyclical nature of corruption in societies.²⁵ This is especially the case in the construction sector, widely recognized as one of the most systemically corrupt globally, in both the developed and developing worlds.²⁶ Québec is not alone in facing endemic corruption in the construction sector. Construction is a \$3 trillion industry worldwide, and estimates of financial losses from corruption vary from 15 to 30 per cent per year.²⁷ Construction projects are prone to corruption because of their size, uniqueness and complexity, and the fact that projects are structured through various phases and contractual links that disperse accountability among numerous separate agents. Extensive approval processes and multiple layers of contractors afford the greatest opportunities for corruption.²⁸

Construction is always perceived as the most bribery-prone sector in political economies. According to Ernst & Young’s 2012 *Global Fraud Survey*, “respondents from the construction sector were more likely than average to see bribery as common practice in their sector”.²⁹ Corruption is endemic in construction because it is an *anticipated practice* when contacts with public officials take place. The expectation of bribes orients behavior. At the Charbonneau inquiry, an ex-construction boss said that, for years, three per cent of all contracts he received from the city of Montréal went to the mayor’s party, and another percentage point, known as “*la taxe à Surprenant*”, went to a city official. Such stability (even familiarity) in the ties between corrupters and corruptees is indicative of what della Porta and Vannucci describe as the “hidden order” of corruption, i.e. a set of self-enforced

²³ Alena Ledeneva “Corruption in Postcommunist Societies in Europe: A Re-examination” (2009) 10 *Perspectives on European Politics and Society* 69 at 86.

²⁴ Donatella della Porta & Alberto Vannucci, *Corrupt Exchanges: Actors, Resources, and Mechanisms of Political Corruption* (New York: De Gruyter, 1999); Michael Johnston, *Corruption, Contention and Reform: The Power of Deep Democratization* (New York: Cambridge University Press, 2014).

²⁵ Cristina Bicchieri & John Duffy, “Corruption Cycles” (1997) 45 *Political Studies* 477 at 495.

²⁶ Jill Wells, “Corruption and Collusion in Construction: A View from the Industry” in Tina Søreide & Aled Williams, eds, *Corruption, Grabbing and Development: Real World Challenges* (Cheltenham, UK: Edward Elgar, 2013) 23 at 34.

²⁷ John Hawkins, *How to Note: How to Reduce Corruption Infrastructure Sectors* (London: UK Department for International Development, 2013) at 4.

²⁸ Charles Kenny, *Construction, Corruption, and Developing Countries* (Washington, DC: World Bank, 2007) at 2.

²⁹ Ernst & Young, 2012 *Global Fraud Survey* (London, 2012) at 3.

and invisible codes, norms and reciprocity rules that help parties to corrupt exchanges reduce uncertainties and the risk of defections or denunciations, and increase the resources at their disposal.³⁰ In the Netherlands - a country perceived to be among the least corrupt in the world - a public inquiry in 2002 found substantial evidence of collusion subsystems and networks in the construction industry.³¹ In the UK, a 2013 survey found that half of the 700 construction professionals interviewed believed that corruption in construction was “extremely common”, and 40 per cent responded that they had been offered a bribe on at least one occasion.³² Even in “squeaky clean” Sweden, a report by the National Council for Crime Prevention found an “established culture of corruption in the construction industry”.³³ How can such a “culture” cohabit in a society with otherwise fairly high levels of social trust and “quality of government”?

To explain this puzzle, the article proceeds as follows. The next section critically reviews the concept of systemic corruption for its elasticity and limited applicability to advanced welfare states, where corruption usually takes the form of “regulatory” or “institutional capture”, and is found mostly at the *subsystem* level rather than the whole system level.³⁴ In such contexts, the typical assumption in research that systemic corruption is deeply embedded in culture and society and highly change-resistant needs to be relaxed. “Embeddedness” expresses the notion that social actors can be understood and interpreted only within relational, institutional and cultural contexts and cannot be seen as atomized decision-makers maximizing their own utilities.³⁵ In this article, I try to develop a more appropriate middle ground between the functionalist, “oversocialized” view of systemic corruption, where social conditions exist *a priori* to behaviours, and norms and values are deeply internalized; and the utilitarian, “undersocialized”, neoclassical position of the principal-agent in anticorruption research and policy, according to which behavior transcends social contexts.³⁶

To illustrate this argument, in the second section I take a short step back to the 1960s to describe how the Quiet Revolution propelled the province of Québec onto the path of

³⁰ Donatella della Porta & Alberto Vannucci, *The Hidden Order of Corruption: An Institutional Approach* (Farnham, UK: Ashgate Publishing Company, 2011).

³¹ Grat Van Den Heuvel, “The Parliamentary Inquiry on Fraud in the Dutch Construction Industry: Collusion as Concept between Corruption and State-Corporate Crime” (2005) 44, *Crime, Law & Social Change* 133 at 151.

³² The Chartered Institute of Building, *A Report Exploring Corruption in the UK Construction Industry* (London, September 2013) at 3.

³³ Linda Hols Salén & Lars Korsell, *Reported Corruption in Sweden: Structure, Risk Factors and Countermeasures* (Stockholm: Brå - Swedish National Council for Crime Prevention, 2013) at 73.

³⁴ Jonathan Hopkin & Andrés Rodríguez-Pose, “Grabbing Hand or Helping Hand? Corruption and the Economic Role of the State” (2007) 20 *Governance* 187 at 208; Mark Warren, “What Does Corruption Mean in a Democracy?” (2004) 48 *American Journal of Political Science* 328 at 343.

³⁵ Mark Granovetter, “Economic Action and Social Structure: The Problem of Embeddedness” (1985) 91 *American Journal of Sociology* 481 at 510. See also Mark Granovetter, “The Social Construction of Corruption”, in Victor Nee & Richard Swedberg, eds, *On Capitalism* (Stanford: Stanford University Press, 2007) 152 at 172.

³⁶ For a similar “middle ground” position, see Olivier de Sardan, “A Moral Economy of Corruption in Africa?” (1999) 37 *The Journal of Modern African Studies* 25 at 52.

greater social justice and better government. Québec has built what is arguably the strongest model of social protection in North America.³⁷ It has developed a distinctive European-like welfare state that includes universal childcare, active labour market policies, and a government-wide strategy against poverty and social exclusion. But as the evidence exposed at the Charbonneau inquiry makes clear, the political “big bang” created by the Quiet Revolution did not make systemic corruption disappear from the construction sector. Rather, it adapted to its new institutional environment and was significantly shaped by the incentives structure it provided. As we shall see in the third section, the patterns of corruption emerging from the Charbonneau inquiry bear the imprint of the so-called “Québec model” inherited from the Quiet Revolution in at least three ways: (i) in the economic nationalism that made public policies *partial* towards French-speaking and Québec-based businesses, notably in the engineering sector, with major firms like SNC-Lavalin using their dominant position as “national champions” to engage in cartel-like practices to raise the price of construction projects; (ii) in the Jacobinism that strongly centralized power at the provincial level and left municipalities underdeveloped in terms of bureaucratic capacity, thus making them easy prey for corrupted interests, and (iii) in the sovereignist/federalist cleavage that, since the 1970s, has made Québec businesses dependent on the Liberal Party for political stability and has allowed party operators to extract a rent from businesses in return. I conclude the article by summarizing my arguments and spelling out alternative theoretical and policy implications for the future fight against corruption.

1. THE PROBLEM OF SOCIAL EMBEDDEDNESS IN CORRUPTION THEORY AND RESEARCH

When Huntington wrote in 1968 that Québec was “perhaps” (a term omitted in the *Maclean’s* article) the “most corrupt”, he was comparing the “Belle Province” to Australia, Britain, Canada and the US. His argument was that Québec voting behavior remained traditional and not as class-based as in the other four jurisdictions. Rather than making choices based on programmatic and universalist appeals, Québec voters choose a particularistic form of politics based on religion, ethnicity and language.³⁸

This understanding of culture as universalist/particularist was prominent in modernization theories: the notion that the development of societies worldwide would, in the long run, follow the path of Western modernization in establishing liberal democracies and market capitalism.³⁹ Corruption, in this perspective, comes from the “clash” of indigenous values and the norms of modern bureaucracy. Values stressing traditional obligations to family, tribe or village - believed to be prevalent in developing

³⁷ Keith Banting & John Myles, eds, *Inequality and the Fading of Redistributive Politics* (Vancouver: University of British Columbia Press, 2014).

³⁸ *Political Order in Changing Societies* (New Haven: Yale University Press, 1968) at 65.

³⁹ Samuel Huntington, “Modernization and Corruption” in Arthur J. Heidenheimer, ed, *Political Corruption. Readings in Comparative Analysis* (New Brunswick NJ: Transaction Books, 1970) 492 at 500.

countries - are seen as undermining formal legal and political institutions⁴⁰. Corruption, in this view, “is in large part an expression of particularism – the felt obligation to help, to give resources to persons to whom one has a personal obligation, to the family above all but also to friends and membership groups”.⁴¹

In functionalist theory, corruption is considered a sign of friction between various subsystems, and in particular, of the survival of old values and traditional institutions during periods of rapid social and economic transformation. Corruption is said to play a number of positive functions. Sociologists like Huntington and James C. Scott argued in the 1960s that high levels of corruption, though at first sight being the exact opposite of a modern social structure, can play an important function in the modernization of societies in the developing parts of the world.⁴² Their argument was that political corruption can, among other things, serve as an incentive for people to join political parties beyond traditional ties like family, ethnicity, or religion. Furthermore, political corruption was seen as an antidote to bureaucratic red tape and a mean to “grease the wheels of economic growth”.⁴³ Arguments emphasizing the functionality or problem-solving quality of corruption were first developed by Merton, who contended that corruption, in the form of the “political machine”, fulfilled certain social needs not addressed by the formal political system at the turn of the 20th century in the US.⁴⁴ At a time when the administrative capacity of the state was low, and the legal order was not rigorously enforced, the political machine played a vital role in maintaining order amid the rapid social changes brought about by industrialization and urbanization. By allowing the urban poor, ethnic minorities and newly arrived immigrant groups access to resources; and by granting business elites privileges and guarantees, the political machine effectively managed the disparate and conflicting interests of civil society during the great economic and social transformation of America.

Following Merton, others emphasized the role of patronage in facilitating political integration in culturally and linguistically diverse societies.⁴⁵ The interpretation of corruption as the price to pay to keep recalcitrant provinces like Québec and Newfoundland quiet and the country together has long been at the centre of the brokerage

⁴⁰ Gabriel Ben-Dor “Corruption, Institutionalization, and Political Development” (1974) 7 *Comparative Political Studies* 63 at 83; Joseph S. Nye, “Corruption and Political Development: A Cost-Benefit Analysis” (1967) 61 *American Political Science Review* 417 at 427.

⁴¹ Martin S. Lipset, Martin & Gabriel S. Lenz (2000). “Corruption, Culture and Markets” in Lawrence E. Harrison & Samuel P. Huntington, eds, *Culture Matters: How Values Shape Human Progress* (New York: Basic Books, 2000) at 119.

⁴² James C. Scott “An Essay on the Political Functions of Corruption” (1967) 5 *Asian Studies* 501 at 523.

⁴³ Nathaniel H. Leff, “Economic Development Through Bureaucratic Corruption” (1964) 8 *American Behavioral Scientist* at 10.

⁴⁴ Robert K. Merton, *Social Theory and Social Structure* (New York: Free Press, 1957).

⁴⁵ James C. Scott “Corruption, Machine Politics, and Political Change” (1969) 63 *American Political Science Review* 1142 at 1158.

theory of party development and elite accommodation in Canada.⁴⁶ To quote from Jeffrey Simpson's *Spoils of Power*,

Patronage, by offering the benefits to people of all regions, has helped to steer Canada away from parties based on race, religion or region, which would have led to unstable coalition governments. Patronage, whatever its costs, has done its bit for national integration and political stability.⁴⁷

In contemporary debates, this line of argumentation defending corruption for its positive effects on modernization is almost forgotten. Today, the study of corruption is, by and large, dominated by “new institutional economics” and political science, both contributing to the consensus that treats corruption basically as a “social disease”.⁴⁸ This shift in research is usually interpreted as a rational learning process moving from mere functionalist speculation to economic models and survey data demonstrating that corruption has no positive developmental aspects whatsoever.⁴⁹ The functionalist prevision that developing nations would follow the more efficient path of the developed world, where corruption has become marginal or residual over time, has largely been proved wrong. Whereas the persistence of corruption in developing countries used to be seen as the exception, and its relative absence or weakness in the West as the historical norm, today most researchers take the opposite view. They start from the premise that *all human societies are corrupted*. The crucial difference is that some have been more successful than others in developing stronger institutions to deter corruption and reduce the costs it imposes on societies.⁵⁰ In the “new institutional economics”, government institutions and policies are no longer the causes of corruption and poor performance.⁵¹ Classical economists and theories of rent-seeking have traditionally viewed big government as the source of big corruption.⁵² But research in the 1990s began to stress that quality - not quantity - was the key issue when it came to government and

⁴⁶ Kenneth R. Carty, “Three Canadian Party Systems: An Interpretation of the Development of National Politics” In Hugh G. Thorburn & Alan Whitehorn, eds, *Party Politics in Canada* (Toronto: Prentice Hall, 2001) 16 at 32; Robert Presthus, *Elite Accommodation in Canadian Politics* (New York: Cambridge University Press, 1973).

⁴⁷ Jeffrey Simpson, *Spoils of Power: The Politics of Patronage* (Toronto: Harper Collins, 1988) at 16.

⁴⁸ Johann G. Lambsdorff, *The Institutional Economics of Corruption and Reform* (New York: Cambridge University Press, 2007); Susan Rose-Ackerman, *Corruption and Government. Causes, Consequences, and Reform* (New York: Cambridge University Press, 1999).

⁴⁹ Pranab Bardhan, “The Economist’s Approach to the Problem of Corruption” (2006) 34 *World Development* 341 at 348.

⁵⁰ Douglass C. North, John Joseph Wallis & Barry R. Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History* (New York: Cambridge University Press, 2012).

⁵¹ Jean-Cartier Bresson, *Économie politique de la corruption et de la gouvernance* (Paris: L’Harmattan, 2008).

⁵² Rajeev K. Goel & Michael L. Nelson, “Corruption and Government Size: A Disaggregated Analysis” (1998) 97 *Public Choice* 107 at 210; Johann G. Lambsdorff, “Corruption and Rent-Seeking” (2002) 113 *Public Choice* 97 at 125.

corruption.⁵³ Renewed attention was paid to Weberian bureaucratic structures and their role in nurturing growth.⁵⁴

As political economists became more interested in institutions, they highlighted their propensities toward path dependency and lock-in processes.⁵⁵ Contrary to the efficiency view of institutions in economic analysis, they found that competitive pressures did not lead to the elimination of inefficient institutions and their convergence toward a common “best way”. Since then, the “big question”, in Douglass North’s words, is “why aren’t all countries in the world advanced industrialized nations?”⁵⁶ Why aren’t we all Scandinavians? Why dysfunctional institutions are so difficult to change?

Systemic Corruption as an Informal Institution

North’s response is that analysts have placed too much emphasis on the effects of formal institutions while neglecting the equally important role of informal ones. In recent years, new conceptions of systemic corruption as a dysfunctional informal institution consisting of a series of collective action dilemmas (social traps) have emerged.⁵⁷ These approaches emphasize the role of social norms and cultural beliefs as coordinating devices or mechanisms that sustain particular equilibria. They tend to break down the conceptual divide between “institutions” and “culture”. They take a more sociological view of institutions.⁵⁸ Informal institutions are defined broadly to include the “socially shared rules”, symbol systems, cognitive scripts and frames that guide human action.⁵⁹ Systemic corruption, in this perspective, is a “system where the need to offer and demand bribes in order to maintain what are deemed the necessary services or economic standard is ingrained in most agents’ “mental maps” – so much so that this has become an informal

⁵³ Rafael LaPorta, Florencio Lopez-de-Silanes, Andrei Shleifer & Robert Vishny, “The Quality of Government” (1999) 15 *Journal of Law, Economics and Organization* 222 at 279.

⁵⁴ Peter B. Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995); Peter B. Evans & James Rauch, “Bureaucracy and Growth: A Cross-National Analysis of the Effects of ‘Weberian’ State Structures on Economic Growth” (1999) 64 *American Sociological Review* 748 at 765.

⁵⁵ Douglass C. North, *Institutions, Institutional Change and Economic Performance* (New York: Cambridge University Press, 1990); Paul Pierson, “Increasing Returns, Path Dependence and the Study of Politics” (2000) 94 *The American Political Science Review* 251 at 267.

⁵⁶ “What is Missing from Political Economy” in Barry R. Weingast & D. Wittman, eds, *Handbook of Political Economy* (Oxford: Oxford University Press, 2006) at 1003.

⁵⁷ Bo Rothstein, *Social Traps and the Problem of Trust* (Cambridge: Cambridge University Press, 2005); Keith Darden, “The Integrity of Corrupt States: Graft as an Informal State Institution” (2008) 36 *Politics & Society* 35 at 39; Anna Persson, Bo Rothstein & Jan Teorell, “Why Anti-Corruption Reforms Fail: Systemic Corruption as a Collective Action Problem” (2009) 26 *Governance* 449 at 471.

⁵⁸ Peter A. Hall & Rosemary C. R. Taylor, “Political Science and the Three Institutionalisms (1996) 44 *Political Studies* 936 at 957.

⁵⁹ Gretchen Helmke & Steven Levitsky, “Informal Institutions and Comparative Politics: A Research Agenda” (2004) 2 *Perspectives on Politics* 725 at 740; Alena Ledeneva, *Can Russia Modernise? Sistema, Power Networks and Informal Governance* (New York: Cambridge University Press, 2013).

institution”.⁶⁰ The institution of systemic corruption is informal insofar as it is neither explicitly codified nor externally enforced. Nevertheless, it powerfully shapes the interests and strategies of public officials and citizens. Corruption becomes so pervasive and routine when systemic that agents are no longer aware of it. They come to “interpret life in terms of corruption”, to quote from a United Nations report on Bosnia and Herzegovina.⁶¹

Definitions of systemic corruption as an informal institution are a welcome addition to the analyst’s toolkit. They remind us that the self-reproducing properties of institutions are very often cognitive in nature. But they describe an all-encompassing form of corruption that leaves little room for human agency. And they refer to extreme cases that are supposed to represent the exception rather than the rule. According to various estimates, approximately 40 to 50 countries (out of a total of almost 200) around the world suffer from systemic corruption, ranging from all of the post-Soviet countries to places like Afghanistan, Pakistan, and much of sub-Saharan Africa. Systemic corruption is not typically associated with developed countries and advanced welfare states. In anticorruption studies, the theory is that these countries were once systematically corrupt, but broke free from corruption in a revolutionary moment of abrupt and wholesale transformation. Bo Rothstein calls this the “big bang approach” to change, which suggests that societies cannot escape the “social trap” of systemic corruption gradually, but only through “dramatic”, radical reconfigurations.⁶²

The big question then becomes *how systemically corrupt social orders make the transition to a non or less corrupt one?* One important obstacle stands in the way of understanding this transition, however. The shift, or “big bang”, must first begin in the systematically corrupt order and should therefore be consistent with its logic. If that is true how does the transition get started? If systemic corruption is an informal institution that involves cognitive templates or “mental maps” that individuals unconsciously enact, then actors in such a system presumably do not think about leaving or changing it. It is, in fact, this very taken-for-grantedness that makes systemic corruption self-enforcing and so difficult to combat. As a concept, systemic corruption ends up like culturalist theories, incapable of dealing adequately with political change.⁶³ By emphasizing the homogeneity and consistency of groups’ beliefs and values, notions of systemic corruption overestimate the problem of collective action and the immovability of corrupt arrangements. The equilibrium sustaining systemic corruption is seen as so deeply rooted

⁶⁰ Bo Rothstein, *The Quality of Government: Corruption, Social Trust, and Inequality in International Perspective* (Chicago: The University of Chicago Press) at 103.

⁶¹ United Nation Development Program, *Human Development Report 2002 – Bosnia and Herzegovina* (New York: UNDP, 2002) at 27.

⁶² Bo Rothstein, “Anti-Corruption: The Indirect ‘Big Bang’ Approach” (2011) 18 *Review of International Political Economy* 228 at 250.

⁶³ Harry Eckstein, “A Culturalist Theory of Political Change” (1988) 82 *The American Political Science Review* 789 at 804.

in culture and society that it is almost impossible to alter through institutions and policies⁶⁴. It can only be disembedded by radical change. As Larry Diamond has argued,

Endemic corruption is not some flaw that can be corrected with a technical fix or a political push. It is the way the system works, and it is deeply embedded in the norms of and expectations of political and social life. Reducing it to a less destructive level - and keeping it there - requires revolutionary change in institutions.⁶⁵

The problem with revolutionary models of change, however, is that they exaggerate the rupture between past and present. They pay insufficient attention to the adaptive nature of systemic corruption and are ill-equipped to explain its persistence in advanced welfare states⁶⁶. As the evidence presented at the Charbonneau inquiry reveals, systemic corruption in construction did not go away with the dramatic advances in “quality of government” and social equality that followed the Quiet Revolution. Rather, corrupt actors and networks adjusted to new institutions and the incentives structure they provided. Formal institutions may not have the power to eliminate corruption, but they provide the structure of incentives that helps define the costs and benefits of participation in corrupt exchanges. In the Québec case, much of that “structure” was laid down in the 1960s in a set of institutions and policies that together, because of their complementarity, came to be known as the “Québec model” of development.⁶⁷ The next section describes the basic parameters of this model and the following one discusses how it shaped the patterns of corruption exposed at the Charbonneau inquiry.

2. THE QUÉBEC MODEL AND THE PATH TO SOCIAL JUSTICE AND BETTER GOVERNMENT

The term “Quiet Revolution” refers to a short period of intense changes in the first half of the 1960s corresponding to the tenure of office of the Liberal Party of Jean Lesage and characterized by the secularization of society, the creation of a modern welfare state and mixed economy, and major reforms to curb corruption in political financing and the public services. Until 1960, the province of Québec had been dominated by the conservative Union Nationale of Maurice Duplessis who ruled from 1936 to 1939 and

⁶⁴ According to Paul Pierson a “deep equilibrium occurs when the various factors contributing to the resilience of a particular institution or set of institutions are so considerable that once arrangements settle on that point they are highly likely to endure for an extended period of time”, *Politics in Time: History, Institutions and Social Analysis* (Princeton: Princeton University Press, 2004) at 157. Or as Uslander and Rothstein put it, “once the system gets there, it stays there”, Bo Rothstein & Eric M. Uslander, “All for One: Equality, Corruption, and Social Trust” (2005) 58 *World Politics* at 71.

⁶⁵ Larry Diamond, “A Quarter-Century of Promoting Democracy” (2007) 18 *Journal of Democracy* at 119.

⁶⁶ David Nelken and Michael Levi, “The Corruption of Politics and the Politics of Corruption: An Overview” (1996) 23 *Journal of Law and Society* 1 at 17.

⁶⁷ Peter Graefe, “Whither the Quebec Model? Boom, Bust and Quebec Labour,” in J. Peters, ed, *Boom, Bust and Crisis: Labour, Corporate Power and Politics in Canada* (Halifax: Fernwood Publishing, 2012) 125 at 141; Benoît Lévesque, “Le modèle québécois” (2002) 29 *Revue interventions économiques* 2 at 21.

again from 1944 to 1959. Duplessis presided over a period of Québec's political development marked by widespread corruption and dubious electoral practices, described as the "Great Darkness".⁶⁸ Duplessis was known as "the Boss" (le chef), and as is typical of "bossism", he maintained a system of political authority and loyalty centered on him personally and bound together by patronage, coercion and self-interest⁶⁹. Duplessis's death in 1959 caused the Union Nationale to lose its hold on power in the 1960 election. The new Liberal government embarked upon a massive program of reforms. It attacked political patronage and changed the electoral map to provide for better representation. It limited expenditures during elections. The period was marked by the dramatic development of government institutions. From 1960 to 1970, the province's expenditures grew fivefold, from \$860 million to \$5 billion dollars. As a Table 1 below indicates, this period also saw significant growth in the size of the public sector.⁷⁰

Table 1: Growth in the Size of Québec's Public Sector

<i>Year</i>	<i>Administration</i>	<i>Public Enterprises</i>	<i>Total</i>	<i>Employees per 1, 000 Citizens</i>
1955	22, 262	6, 044	28, 302	6.2
1960	29, 298	7, 460	36, 766	7.14
1965	41, 847	14, 411	56, 258	9.94
1970	53, 700	16, 366	70, 066	11.65
1975	85, 465	27, 047	112, 512	18.2
1980	102, 750	32, 326	135 ,076	21.4
1985	108 ,503	41, 830	150, 333	22.8

The Lesage government acted on three major fronts: economic, social and political. On the economic front, the government first priority was increasing French-speaking Quebecers' control over the province's economy. Although francophones made up 80 per cent of Québec's population, only 47 per cent of businesses were owned by French Quebecers. The goal here was to redress the underrepresentation of French Canadians in the upper echelons of Quebec's economic structures. This was to be achieved through state-owned enterprises, most notably the nationalization of electricity production and distribution. In 1963, Natural Resources Minister René Levesque nationalized all of the electrical utilities to form Hydro-Québec, which remains a leading successful public-

⁶⁸ Gérard Boismenu, *Le Duplessisme. Politique économique et rapports de force, 1944-1960* (Montréal: Presses de l'Université de Montréal, 1981);

⁶⁹ Bossism is similar to patronage and clientelism, though a boss uses more coercion and enjoys more unrivaled power than a patron. Bossism insists on the persistence of coercive pressures and local power monopolies in electoral politics and social relations. Herbert F. Quinn, "Quebec: Corruption Under Duplessis" in Kenneth M. Gibbons & Donald Rowat, eds, *Political Corruption in Canada: Cases, Causes and Cures* (Toronto: McClelland & Stewart, 1976) 66 at 80; James D. Bolin, *Bossism and Reform in a Southern City* (Lexington: University Press of Lexington, 2000); Orville D. Menard, *Political Bossism in Mid-America* (Lanhan, Maryland: University Press of America, 1989).

⁷⁰ Table 1 is from Alain G. Gagnon & Mary Beth Montcalm, *Quebec: Beyond the Quiet Revolution* (Toronto: Nelson Canada, 1989).

sector corporation to this day. The creation of Hydro-Québec opened new opportunities for French-speaking professionals in managerial and technical positions.

Hydro-Québec established French as the sole working language in the new enterprise and gave preferential purchasing treatment to Quebec-based businesses. The so-called “megaprojects” embarked upon under Hydro-Québec’s mandate, largely massive new dam projects in the province’s remote north, were instrumental in propelling Québec engineering into the major leagues and led to the emergence of world-class engineering firms such as SNC-Lavalin. Another major achievement was the creation in 1965 of a government-controlled fund that administers the assets of the Québec Pension Plan. The fund rapidly grew to several billion dollars and provided a strong tool to support the economy by allowing the state to invest in key sectors. The Société Générale de Financement was also established to hold retirement savings and to pool money for investment in corporations owned by Quebecers. A third institution, the Caisse de dépôt et placement, manages pension fund revenues and pools them for additional investment in the province and in francophone businesses.

On the social front, the provincial government took over the fields of education, health and welfare which had been in the hands of the Roman Catholic Church since the beginning of New France. It centralized power in newly created ministries of Health and Education, and church-related institutions came increasingly under the control of provincial bureaucracies. The public service was modernized and allowed to unionize and expand. This greatly expanded civil service gradually took on the character of an independent bureaucracy – organized according to bureaucratic principles, requiring professional qualifications for appointment and promotion, and exercising considerable policy-making power. In fact, by the mid-1960s, there was a widespread popular sentiment that Québec had become a technocracy in which senior bureaucrats - and not politicians - were the dominant force.⁷¹

On the political front, the pursuit of a more activist role by the Québec government soon led to federal-provincial conflicts. Québec’s demands for wider jurisdictional powers challenged the established procedures of Canadian federalism. Growing federal-provincial quarrels raised the question of the place of Québec and French Canadians in Confederation. In 1965, the Royal Commission on Bilingualism and Biculturalism noted that “Canada, without being fully conscious of the fact, is passing through the greatest crisis in its history. The source of the crisis lies in the Province of Quebec”. French Canadian nationalism was becoming more and more *Québécois* in nature. Québec’s increasing power and search for autonomy met resistance from Ottawa. This was most visibly the case in the diplomatic area. Leaders of the Quiet Revolution like Lévesque concluded that the federal system would not permit the Quebec state to assume the role it had come to expect and that only independence would make this possible. The Parti Québécois (PQ) was created in 1968 with the goal of transforming the province into a sovereign state. This led to a major realignment of politics into federalist and sovereignist camps, one that still prevail today.

⁷¹ Jean-Jacques Simard, *La longue marche des technocrates* (Montréal: Les Éditions coopératives Albert Saint-Martin, 1979).

The Quiet Revolution's Effects

The “consuming goal” of the Quiet Revolution, according to McRoberts, was “*rattrapage*, catching up to social and economic development elsewhere”.⁷² The primary aim of reformists was to eliminate the long-standing and crippling inequality trap created by the enduring economic disparities between French and English in Canada. Until the 1960s, francophones in Quebec earned less than anglophones. Has the economic position of francophones improved in the last 50 years? Unequivocally yes. There are two dimensions to consider: business ownership and relative earnings. On the first point, Table 2 below shows that francophone-owned businesses in Québec increased their share of provincial employment from 51 per cent in 1961 to 67 per cent in 2003.⁷³

Table 2: Ownership of Quebec Economy

	<i>Foreign-Owned Employers</i>	<i>Anglophone-Owned Employers</i>	<i>Francophone-Owned Employers</i>
Public Sector			
1961	0.5	47.7	51.8
1978	0	32.8	67.2
1991	0	34.8	65.2
2003	0	38.3	61.7
All Sectors			
1961	13.6	39.3	47.1
1978	13.9	31.2	54.8
1991	8.7	26.2	65.1
2003	10	22.9	67.1

On the second point, research by Pierre Fortin indicates that Québec francophones' earnings in 2000 were equal to or greater than earnings of anglophones of the same gender, language skills, level of education, number of years of experience and number of weeks worked.⁷⁴ This is a far cry from the 52 per cent wage gap between French-origin and British-origin men in Québec in 1960. When Lesage came to power, two thirds of young adults in Québec did not have high school diplomas. Table 3 indicates that Québec's average level of schooling was more than a year under the national average 50 years ago; by 2001 it had closed the gap.

⁷² Kenneth McRoberts, *Quebec: Social Change and Political Crisis* (Toronto: McClelland & Stewart, 1988) at 129.

⁷³ Table 2 is from François Vaillancourt, Dominique Lemay & Luc Vaillancourt, *Laggards No More: The Changed Socioeconomic Status of Francophones in Quebec* Backgrounder No. 103 (Toronto: C.D. Howe Institute, 2007).

⁷⁴ Table 3 is from Pierre Fortin, “Quebec's Quiet Revolution, 50 Years Later” (2011) 29 *Inroads* 90 at 99.

Table 3: Average Years of Schooling for Population Aged 25-34

<i>Region</i>	<i>1961</i>	<i>2001</i>	<i>Change (Percent)</i>
Quebec	9.5	14.4	4.9
Ontario	11	14.7	3.7
All Other Provinces	10.7	14.3	3.6

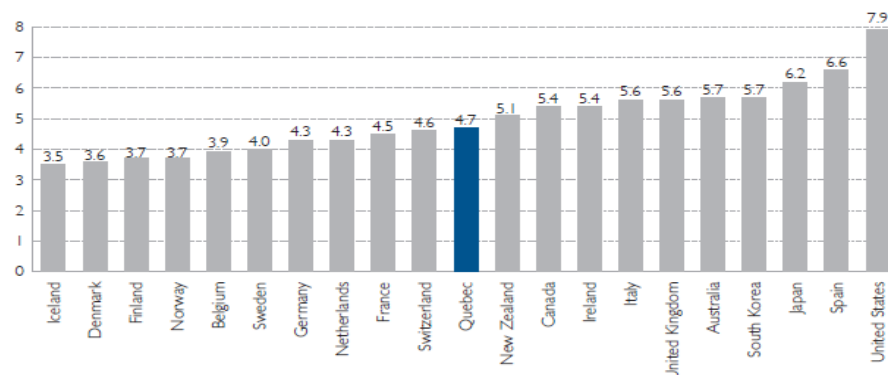
“Increasing the welfare and health of our population” was another stated objective of the Lesage government. To achieve this goal Quebec built an imposing welfare state. Figure 1 compares public spending in Québec with spending in 20 selected OECD countries in 2009.⁷⁵ Public spending in Québec accounts for 47 per cent of GDP. It ranks fourth, not far behind Denmark (49 per cent) and Sweden (48 per cent) and tied with France and Italy. Public spending accounts for a larger share of Québec’s GDP than for Finland, Netherlands and Norway.

Figure 1: Public Spending as Percentage of GDP

How well is Québec’s welfare state performing? The province has arguably become the most egalitarian society in North America. Whether in absolute or relative terms, there is generally less poverty in Québec than elsewhere in Canada and the United States. Figure 2 shows this comparison between Québec and the 20 selected OECD countries for 2010.

⁷⁵ Figures 1 and 2 are from Robert Gagné, ed, *Productivity and Prosperity in Québec: 2013 Overview* (HEC Montréal Centre for Productivity and Prosperity, 2014).

Figure 2: Inequality in Selected OECD Countries and Québec After Income Tax and Transfer (2010)



In 2010 the richest households in Québec had an average income 4.7 times higher than the poorest households. When we compare this level of inequality with that in the 20 selected OECD countries, Québec falls in the middle of the ranking. Scandinavian countries and the Netherlands have less inequality than Québec. The income gap between the wealthiest and the poorest households is wider in Québec than in the Netherlands (4.3), Sweden (4.0), Norway (3.7), Finland (3.7) and Denmark (3.6). At the other end of the ranking, a number of OECD countries, almost all known for their governments' generally more limited intervention, have greater inequality than Québec, including Canada as a whole. This is also the case for Ireland (5.4), the United Kingdom (5.6), Australia (5.7) and Japan (6.2). The United States has by far the greatest inequality rate. Unlike its immediately neighbouring jurisdictions, Québec has less inequality and is closer to more egalitarian countries.

Social Partnership in a Small Society

The Quiet Revolution's goals have been broadly achieved. But this relative success was not the result of the state acting alone. And neither was it immediate, but gradual. The model that emerged from the Quiet Revolution was *étatiste*, centralized and top-down. In the 1970s, the social forces and coalitions that had wrought the interventionist state began to crack and break apart. Social movements, unions and advocates of decentralization started to criticize the technocratic management of public services.⁷⁶ Economic restructuring and the recession of the 1980s highlighted the limits of state-led development strategies. In the 1980s and 1990s, the province began to experiment with more collaborative forms of governance. It organized "economic summits" where all the players in the economy and civil society were brought together and asked to work with the government to build unity around key objectives. Québec's welfare state entered at that moment a second phase, with a new wave of social programs such as universal drug

⁷⁶ Carla Lipsig-Mummé, "Québec Unions and the State: Conflict and Dependence" (1980) 3 *Studies in Political Economy* 119 at 146; Louis Maheu, "Les mouvements de base et la lutte contre l'appropriation étatique du tissu social" (1983) 15 *Sociologie et sociétés* 77 at 92.

insurance, low-fee childcare, extended parental leaves, new family allowances and pay equity.⁷⁷ It evolved into “a new model of solidarity-based democratic development anchored in new relationships between the state, the market and a vigorous and autonomous third sector”.⁷⁸

Québec’s response to changing economic circumstances was a variant of the “democratic corporatism” of small societies described by Katzenstein.⁷⁹ In Europe, Katzenstein argued that perceived vulnerability (economic or otherwise) generated an ideology of social partnership that acted as the glue for the “democratic corporatist” politics and institutions found in small states. Small nations are said to have more social cohesion and greater ability to make sacrifices for the common good. They can coordinate policy in ways that help them respond successfully to external vulnerabilities by building institutional capacities for cooperation, flexible maneuvering, and concerted action in the “national interest”.⁸⁰ Political centralization also tends to be greater and political arrangements tend to be more closely knit. In the “varieties of capitalism” literature, small neo-corporatist societies belong to the “coordinated market economy” type.⁸¹ According to Peter Hall, coordination and cooperation is facilitated in small political economies by “a thick set of shared understandings of the sort built up by experience over long periods of time, tantamount to a particular ‘culture’ rooted in national history”.⁸² In the Québec case, the modernizing and resolutely secular nationalism of the Quiet Revolution provided the critical foundation for the ideology of social partnership that Katzenstein suggested was crucial for small societies. A shared sense of national identity allowed partners to limit internal conflicts, overcome collective action problems and coordinate on a specific equilibrium.

With more than 40 per cent of the province’s workers being unionized (Figure 3 next page) - the highest rate in North America - social partnership in Québec is characterized by the presence of powerful trade unions.⁸³ Union might is matched by a well-organized business community represented by a peak association, the Conseil du patronat. Other partners include a solid women’s movement and a dense network of social and community organizations active in the social economy. Thanks to patient capital provided

⁷⁷ Jane Jenson, “Against the Current: Childcare and Family Policy in Quebec” in Rianne Mahon & Sonya Michel, eds, *Child Care Policy at the Crossroads* (New York: Routledge) 309 at 332.

⁷⁸ Alain Noël, “Quebec’s New Politics of Redistribution” in Keith Banting & John Myles, eds, *Inequality and the Fading of Redistributive Politics* (Vancouver: University of British Columbia Press, 2014) at 259.

⁷⁹ Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca: Cornell University Press, 1985).

⁸⁰ Natalka Patsiurko, John L. Campbell & John A. Hall, “Nation-State Size, Ethnic Diversity and Economic Performance in the Advanced Capitalist Countries” (2013) *New Political Economy* 1 at 18.

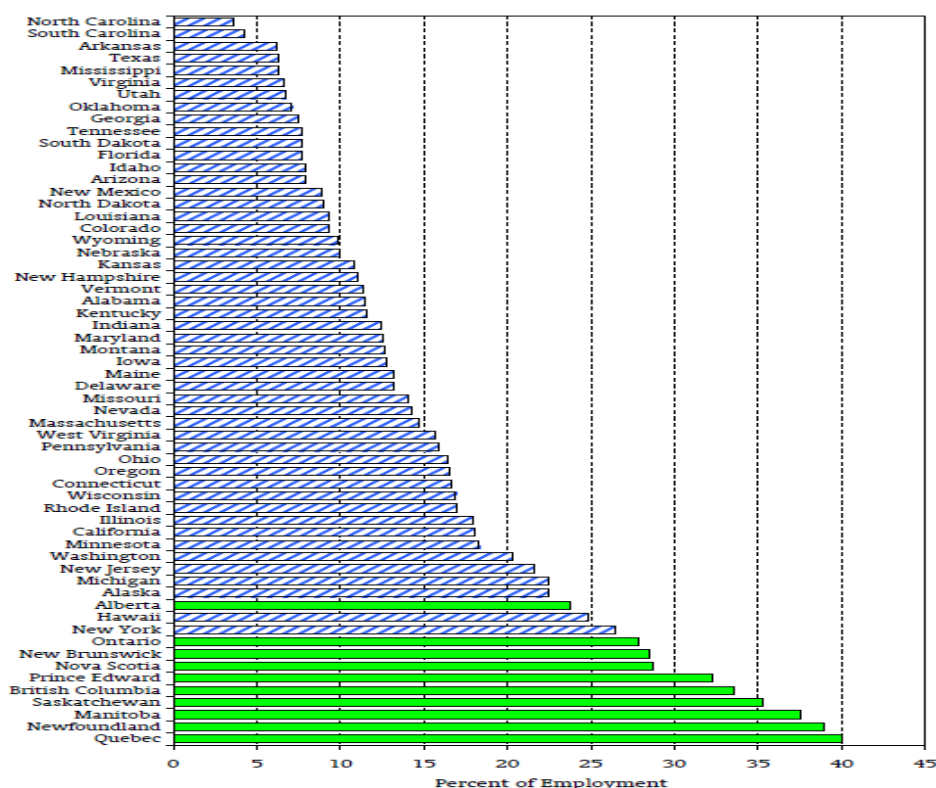
⁸¹ Peter A. Hall & David Soskice, eds, *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (New York: Oxford University Press, 2001).

⁸² Peter A. Hall, “Danish Capitalism in Comparative Perspective” in John L. Campbell, John A. Hall & Ove K. Pedersen, eds, *National Identities and the Varieties of Capitalism* (Montreal: McGill-Queen’s University Press, 2006) at 446.

⁸³ Figure 3 is from Jason Clemens, Niels Veldhuis & Amela Karabegovic, *Explaining Canada’s High Unionization Rates* (Vancouver: The Fraser Institute, August 2005).

by workers' investment funds such the Solidarity Fund set up by the Fédération des travailleurs et travailleuses du Québec (FTQ), social economy enterprises have flourished over the past 20 years.⁸⁴ The Solidarity Fund supports job creation in Québec's small and medium-sized businesses. It is funded by retirement savings subscriptions from union members and the general public, and benefits from tax credits by the provincial and federal governments⁸⁵. The Fund and its counterpart (FondAction) established in 1996 by the Confédération des syndicats nationaux (CSN), the second largest union organization in the province, have invested over \$12 billion in Quebec companies and helped create or maintain 200,000 jobs in the province. The two funds are partners, either directly or through their network members, in over 3,000 Québec businesses and social economy enterprises.⁸⁶

Figure 3: Total Unionization Rate as a Percent of Employment (2004)



⁸⁴ Marie J. Bouchard, ed, *Innovation in the Social Economy. The Quebec Experience* (Toronto: University of Toronto Press, 2013).

⁸⁵ In the 2013 budget, the Harper government announced that it intends to eliminate by 2017 the 15-percent tax credit offered to investors who buy shares of labour-sponsored venture capital funds.

⁸⁶ Marguerite Mendell & Nancy Neamtan, "The Social Economy in Québec: Towards a New Political Economy" in L. Mook, J. Quarter & S. Ryan, eds, *Why the Social Economy Matters* (Toronto: University of Toronto Press, 2010) 32 at 58.

Workers' investment funds engage unions directly in socio-economic initiatives with government and business.⁸⁷ This illustrates how social partnership blurs the boundaries between state and market and between the public and private sectors. It transforms private economic actors into public policy-makers with whom the government shares part of its authority. Private organized interests are granted a representational monopoly and privileged access to the policy-making process. They are equipped with public power and have a voice at the decision table in return for their adherence to commonly agreed goals.

Definitions of corruption as the “abuse of public power for private ends” rely “on the superficial clarity of a public-private distinction”.⁸⁸ They imply a sharp distinction between market and state not found in neo-corporatist political economies, where private interests assume quasi-public functions. As we shall see next, when former FTQ president Michel Arsenault contacted premier Charest to complain about the Chinese taking a piece of the Québec construction market, he said he was not defending the private interests of the Accurso group, the largest employer in the industry, but rather the interest of the Québec economy as a whole.

3. PATTERNS OF SYSTEMIC CORRUPTION AND THE LEGACIES OF PAST INSTITUTIONAL ARRANGEMENTS

The Charbonneau Commission's budget (around \$35 million) and legal standing have produced background investigative research and a comprehensive set of hearings where participants were legally compelled to testify under oath. The Commission has heard nearly 200 witnesses over a period of two and a half years. Its work was broadcasted daily and its proceedings were widely followed on TV and debated in the press. Witnesses included public officials, former and sitting politicians, party fundraisers, union bosses, engineers and construction company representatives. Written transcripts of their testimonies are available on the Commission's website and consist of approximately 9,000 pages of documents.

In this section I explore this material and the narratives of first-party participants in corrupt exchanges to paint a picture of systemic corruption in public contracts for construction projects at the municipal level of government⁸⁹. This is admittedly a highly interpretive and inductive enterprise, but inherent to the theory-building objective of this paper. The goal is to develop a theoretical explanation from the testimonies given at the Charbonneau inquiry to infer that a more general causal mechanism is at work in the

⁸⁷ Luc Bernier, Luc, Marie J. Bouchard & Benoît Lévesque, 2003, “Attending to the General Interest: New Mechanisms for Mediating Between Individual, Collective and General Interest” (2003) 74 *Annals of Public and Cooperative Economics* 321 at 347.

⁸⁸ William C. Heffernan & John Kleinig, *Public and Private Corruption* (Lanham, Md.: Rowman & Littlefield, 2004) at 3.

⁸⁹ I use the concept of “narrative” found in constructivist approaches to make clear that witness testimonies are not treated as an objective or empirically valid depiction of “reality”, but rather as “discourses” or “stories” making connections across events and which usually have a beginning and an end. See Dirk Tänzer, Konstadinos Maras & Angelos Ginnakopoulos, eds, *The Social Construction of Corruption in Europe* (Farnham, UK: Ashgate Publishing, 2012).

study of this particular case. This mechanism emphasizes the *structuring effects* of the Québec social model on the patterns of corruption exposed at the Charbonneau inquiry. To recapitulate, my key theoretical claim is that discontinuous models of institutional change are ill-equipped to explain the persistence of systemic corruption in advanced welfare states. In Québec, the “big bang” created by the Quiet Revolution did not eliminate systemic corruption in construction - a problem that exists in *all* market economies. Rather, corrupt practices adapted to new institutional arrangements and were shaped by the incentives structures they provided. I use a process-tracing method to identify “traces” of the Québec model in the accounts of direct participants in networks of corrupt exchanges.⁹⁰ I expect patterns of systemic corruption to parallel (i.e. to be embedded in) the overarching institutional structures of the political economy. As discussed next, the patterns of corruption emerging from the Charbonneau inquiry bear the imprints of the governing arrangements inherited from the Quiet Revolution in at least three ways: (i) in the economic nationalism that made public policies *partial* towards French-speaking and Québec-based businesses, notably in the engineering sector, with major firms like SNC-Lavalin using their dominant position as “national champions” to engage in cartel-like practices to raise the price of construction projects; (ii) in the Jacobinism that strongly centralized power at the provincial level and left municipalities underdeveloped in terms of bureaucratic capacity, thus making them easy prey for corrupt interests, and (iii) in the sovereignist/federalist cleavage that, since the 1970s, has made Québec businesses dependent on the Liberal Party for stability and has allowed party fundraisers to extract a rent from businesses in exchange.

The Engineering Sector as a National Champion

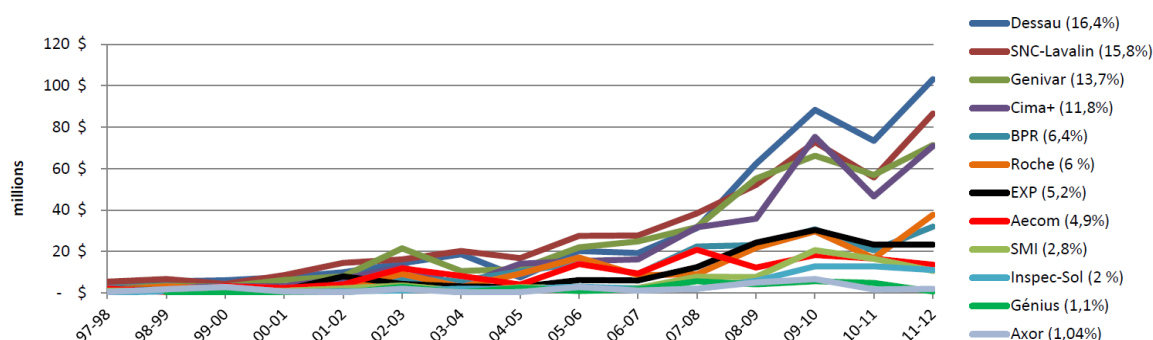
The Lesage government’s nationalization of electricity and Hydro-Québec’s subsequent development of hydropower megaprojects in the province’s north in the 1970s played a key role in creating French-language engineering firms. Hydro-electric development projects, beginning with Manic V, and a few years later the James Bay project, were instrumental in propelling Québec engineering into the major leagues. Lavalin’s participation in the projects allowed it to grow to a position of global dominance, eventually becoming one of the five largest engineering firms in the world, with 28,000 employees worldwide. From the outset, Hydro-Québec adopted a policy of preferential purchasing from French-speaking enterprises, paying up to 10 per cent more for locally produced items. This policy resulted over time in tens of billions in public contracting, leading to the development of several francophone corporations capable of competing in world markets, including SNC-Lavalin, Dessau-Soprin, Roche, and Génivar, “initially developed as a result of Hydro-Québec contracts”.⁹¹ These firms became national champions and symbols of “Québec Inc”; the francophone business elite brought by state-owned enterprises such as Hydro-Québec, la Caisse de dépôt et de placements and the Société générale de financement (SGF).

⁹⁰ Peter A. Hall, “Aligning Ontology and Methodology in Comparative Politics” in James Mahoney and Dieter Rueschemeyer, eds, *Comparative Historical Analysis in the Social Sciences* (New York: Cambridge University Press, 2003) 373 at 404.

⁹¹ Marc V. Levine, *The Reconquest of Montreal. Language Policy in a Bilingual City* (Philadelphia: Temple University Press, 1990) at 161.

Quebec-based engineering firms recorded revenues of \$5 billion and employed more than 23,000 people in 2013.⁹² Mergers and acquisitions have made the industry more concentrated over time; from more than 100 firms 20 years ago to about 40 today. According to the Québec Department of Economic and Regional Development, the industry has become an “oligopoly”.⁹³ This concentration is reflected in the Department of Transport’s expenditures for external expertise and technical services. As Figure 4 shows, from 1997 to 2012, 12 engineering firms accounted for 87 percent (\$2.5 billion) of the funds spent by the department for professional services contracts.⁹⁴

Figure 4: Firms Obtaining Most of the Department of Transport’s Contracts for Engineering Services



Collusion most often takes place within the market structure of oligopoly.⁹⁵ The firms identified in Figure 4 have all admitted to participating in a collusion scheme to raise the price of construction projects. A former Genivar executive told the Charbonneau inquiry that he was part of a cartel of engineering firms that “shared the pie” on Montréal public works contracts in the mid-2000s - rigging bids in concert with Montréal’s then-ruling Union Montréal party in exchange for political donations. An engineer from Génius testified that he was asked to act as the industry “spokesperson” in the decision-making process in which firms were to become eligible for lucrative city contracts. He worked with Union Montréal’s treasurer (who had a list of forthcoming projects) to choose contractors from a pool of firms which were in on the bid-rigging scheme and put forward their offers to the municipal selection committee. The winning firm would usually come in at four or five per cent under scale, he said. Had actually competed, firms

⁹² Ministère des Finances et de l’Économie, *Le génie-conseil québécois : l’énergie au cœur du développement du Québec* (2013) online: <<http://www.economie.gouv.qc.ca>>

⁹³ Ministère du développement économique et régional, *Portrait industriel: filière du génie-conseil* (Gouvernement du Québec, 2003) at 30.

⁹⁴ Figures 4 and 5 are from the Commission d’enquête sur l’octroi et la gestion des contrats publics dans l’industrie de la construction, *Travaux routiers du MTQ : Portrait du marché* (Montréal, April 8 2014).

⁹⁵ Chaim Fershtman & Ariel Pakes, “A Dynamic Oligopoly With Collusion and Price Wars” (2000) 31 *Rand Journal of Economics* 207 at 236.

could have been forced to bid as much as 25 per cent under scale, he told the Commission.

The bid-rigging system that plagued the construction industry in the Montreal area extended to other cities, big and small, across the province. An engineer at AECOM (formerly Tecsalt) said that in 2003, he was told by company officials in Laval - where a similar system long existed - that his firm and three others had agreed to split up contracts worth between \$25,000 and \$500,000 in the city of Gatineau. According to the deal, the contracts would go to Cima+ (40 per cent), Genivar (27 per cent), Tecsalt (22 per cent) and Dessau (11 per cent). The four firms designed a system to split public-works contracts in Gatineau between 2003 and 2009. At first, members of the cartel communicated in person, the inquiry was told, but they later started to divide contracts during phone meetings, using an elaborate code to communicate their prices before submitting their bids. A winner was selected and the others sent in higher bids, replicating a system that first appeared in the greater Montréal area and which the Commission exposed during the hearings.

Construction magnate Tony Accurso's name came up numerous times when the inquiry focused on the system of collusion among companies bidding for Montréal contracts. At their peak, Accurso's firms employed some 3,500 people and did annual business worth \$1.2 billion. His vast network of companies was built through his friendships with high-ranking union officials and the backing of the province's largest, labour-controlled investment fund. Accurso said at the inquiry that he chose to do business with the Solidarity Fund because he wanted to keep investment in Québec and not send it "to Toronto". The construction magnate described himself as a patriotic man eager to help Québec's economy. Accurso admitted that four FTQ presidents had gone for trips on his luxury yacht, "The Touch" (including Louis Laberge, Henri Masse, Clement Godbout and Michel Arsenault). A wiretap conversation played at the Charbonneau inquiry highlighted the tight links uniting the FTQ and the Accurso group. When Accurso called Arsenault to complain about outsiders from China winning lucrative engineering contracts for major Québec infrastructure projects, the FTQ president sprang into action. He immediately contacted politicians in power, including in a January 2009 conversation with then-premier Jean Charest which was caught on a police wiretap. The former union boss (he retired in November 2013) has been relentlessly questioned by the inquiry's attorney about the organization's influence and how much sway Accurso had on the union. Arsenault admitted to intervening with the government on Accurso's behalf regarding certain Hydro-Québec related projects. But in the case illustrated by the inquiry, he denied that he was being used by Accurso. He insisted his intervention following Accurso's complaint about outsiders winning an engineering contract was purely in the interest of defending the best interests of the Québec economy and its workers. After Accurso's call, Arsenault was heard speaking to Charest in a short phone exchange, during which he told the ex-premier that partners of the union's investment fund were unhappy about rumblings of a foreigner obtaining the contract. A few days after the conversation with Charest, Arsenault reported back to Accurso, saying Charest had "turned white like a snowbank when I told him about the Chinese getting the contract." Arsenault also said he'd spoken to then-opposition leader Pauline Marois and a host of

ministers including former Treasury Board president Monique-Jérôme Forget. Arsenault admitted on the stand that there was an interest in pushing for Accurso's company to succeed. The union's billion-dollar Solidarity Fund has heavily invested in Accurso's companies and wanted to see him get lucrative contracts. Arsenault has repeatedly stated he didn't see any conflict of interest issues. "Inside the construction industry, it was well known that Tony [Accurso] was synonymous with the Fund," one witness said.

The Underdeveloped Nature of Local Public Administrations

Testimonies at the Commission have depicted an image of endemic corruption in local public administrations. The mayors of Québec's two largest cities, Montréal and Laval, resigned over corruption scandals. Laval mayor Gilles Vaillancourt was arrested in May 2013 at his home by the police and charged with "gangsterism". The inquiry also heard about so-called "turn-key" elections conducted in the suburbs and in smaller municipalities. "Turn-key" elections involve companies, such as engineering firms, providing everything required and candidates simply stepping into privately financed campaign operations. The company or other business interest takes over a mayoral candidate's campaign; it rents the headquarters, hires workers and maps strategies. If its candidate wins, the mayor is then expected to reward his/her hidden corporate sponsor with public contracts after the election. One witness estimated that he had organized up to 60 election campaigns while working at Roche engineering. Over time, the rigging of election campaigns became a normal business practice. Organizers were placed on corporate payrolls. In exchange for their election-fixing services, their private sector paymasters got the inside track on lucrative municipal contracts.

"Turn-key" elections constitute an obvious form of "institutional capture".⁹⁶ Low voter turnouts and the relative absence of electoral competition in Québec municipal politics might explain why they appear to have been common at the local level. Voter turnout averages 40-45 per cent in municipal elections, compared to 70-75 per cent in provincial and federal elections. The trend is similar for the rest of Canada.⁹⁷ In Montréal in 2013, only 43 per cent of eligible voters participated, despite widespread corruption scandals. Fewer people vote and as a result, a majority of mayors and local politicians in Québec (55 per cent) are elected without opposition. A study by Champagne of the 2005 municipal election has found that political competition for the mayor's job declines with municipalities' size.⁹⁸ In municipalities with 1000-1999 inhabitants, 75 percent of mayors are elected without opposition. Low turnover rates among elected municipal officials favour continuity and stability in political leadership and in relationships with private

⁹⁶ Joel Hellman, Geraint Jones & Daniel Kaufmann, *Seize the State, Seize the Day: State Capture, Corruption and Influence* (Washington: World Bank Policy Research Working Paper No. 2444, 2000).

⁹⁷ Reza M. Nakhaie, "Electoral Participation in Municipal, Provincial and Federal elections in Canada" (2006) 39 *Canadian Journal of Political Science* 363 at 390.

⁹⁸ Patrick Champagne, "Élections municipales 2005: Portrait de l'élection sans opposition" (2007) 2 *Muni-Stat* (Québec: Ministère des Affaires municipales et des Régions, 2007).

contractors. This increases the risk of corruption because incumbents face no competitors to expose their potential misuse of office.⁹⁹

Most people do not vote in municipal elections because they do not perceive the significance of local government in their lives. Municipalities in Canada live in the shadow of federalism, which gives preeminence to provincial-federal relations.¹⁰⁰ Local governments are weak. Compared to other advanced industrial countries, municipalities' constitutional and jurisdictional power is limited.¹⁰¹ Constitutionally, local authorities are a competence of the provincial governments; hence the well-worn phrase that they are "creatures of the provinces." Provincial governments create them, regulate them, prescribe many of the policies they implement, and, not infrequently, eliminate them through amalgamation. Not surprisingly, municipalities' financial position is also relatively weak. Spending by local governments makes up only 4.1 per cent of Canadian GDP, while the 2009 average for the 29 OECD countries for which data is available was 12.2 per cent.¹⁰²

In Québec, the central role played by the provincial state in the promotion of the francophone majority since the Quiet Revolution, has reinforced the political subordination of municipalities. Distributional conflicts and ongoing rivalries with the federal government make the provincial bureaucracy more jealous of its power and less intent on sharing it. Municipalities are micro-managed from the provincial capital by the powerful ministry of municipal affairs. A study by Belley, Bherer et al. concluded that "Québec municipalities have not experienced a real increase in their powers over the past years...they have neither the institutional depth nor the fiscal and political power of that characterize many of their counterparts in the advanced industrial countries".¹⁰³

In the 1960s, reformers focused their energies on developing a Weberian bureaucracy at the *provincial level*. Province-building accompanied the process of nation-building. The Québec state was to be the leader, innovator and symbol of Québécois identity. Not much attention was paid to local government. The merit system in municipal public services remains weakly institutionalized.¹⁰⁴ Montreal, the city with the oldest administrations in the province, is regularly decried by its own public service commission for making appointments outside the formal merit-system. Local public services have low

⁹⁹ Todd Donovan & Regina Branton, "Electoral Competition and Political Corruption", paper presented at the Western Political Science Association Annual Meeting (August 23, 2011).

¹⁰⁰ Donald J. Higgins, Donald J. H. 1986. *Local and Urban Politics in Canada* (Toronto: Gage Educational Publishing Company, 1986).

¹⁰¹ James Lightbody, *City Politics in Canada* (Peterborough: Broadview Press, 2006).

¹⁰² Robert Young, "La gouvernance multiniveau et les politiques publiques au sein des municipalités du Canada" (2013) 19 *Télescope* at 26.

¹⁰³ Serge Belley, Laurence Bherer & al., "Québec" in Andrew Sancton & Robert Young. *Foundations of Governance: Municipal Government in Canadian Provinces* (Toronto: University of Toronto Press, 2009) at 124.

¹⁰⁴ Alain Baccigalupo, *Les administrations municipales québécoises : des origines à nos jours* (Montréal, Agence d'Arc Inc., 1984); Michèle Dagenais, *Des pouvoirs et des hommes: L'administration municipale de Montréal, 1900-1950* (Montréal: McGill-Queen's University Press, 2000).

organizational capacities. Resources are scarce and they have few in-house skills or capabilities, relying extensively on outside expertise. The Charbonneau inquiry has revealed the extent of this dependence in the case of municipal engineers. Witnesses have described engineering firms acting as subcontractors to local governments as a “parallel” or “shadow” public service. These private companies are insulated from government hiring rules and immune from access-to-information laws. A growing shift of personnel from government to engineering firms (and vice versa) in recent years points toward the development of a “revolving door” between the public and private sectors.¹⁰⁵ For years, the Québec Lobbying Commissioner has been suspicious of, and often chastised, engineering firms for failing to disclose their contacts with government officials.¹⁰⁶

This lack of transparency has provided fertile ground for the growth of corrupt practices. Engineers have refused to view their work as lobbying. They see themselves as professionals who provide technical advice on infrastructure projects. But testimonies suggest that the image of the neutral and disinterested expert might have served to hide improper contracting practices and the tactic of charging “extras” for fake cost overruns. Problems arise when municipal administrations are dependent on private sector suppliers and do not have the internal know-how to verify contractors’ work. This results in private suppliers raising their prices and in public agencies becoming hostages to sub-contractors’ demands.

Business’ Dependence on the Liberal Party for Political Stability

The election of the PQ in 1976 brought strong negative reactions from the Canadian and Québec corporate sectors. Pierre Desmarais II, the then president of the Conseil du Patronat (CPQ), said that he would act as “leader of the opposition” to the Lévesque government. Fearing the instability that a rupture with Canada would engender, the Québec business community has always been “massively federalist”.¹⁰⁷ French speaking businesses have been a consistent and staunch supporter of federalism. From the beginning, they have viewed independence as a threat to their access to the wider continental market and as a “possible catalyst to economic deterioration within the province”.¹⁰⁸ The CPQ in particular has been critical of the sovereigntist project, commissioning special studies on its likely economic costs and dismissing it as “sheer emotionalism”.

In a gesture of high symbolic resonance, the Sun Life Insurance Co., established in Montréal since the 19th century, moved its head office to Toronto after the PQ government came to power and passed a new law that made French the official language

¹⁰⁵ Ville de Montréal, *Rapport du Comité-conseil sur l’octroi et la gestion des contrats municipaux à la ville de Montréal* (rapport Léonard, May 8, 2013). The report concluded that “la perte de l’expertise interne au profit de firmes externes laisse trop souvent la Ville impuissante face à ses responsabilités” (p.3).

¹⁰⁶ Antoine Robitaille, “Les ingénieurs: la bête noire du Commissaire”, *Le Devoir* (October 3, 2009).

¹⁰⁷ Jean-Herman Guay, “Le patronat québécois, 1988-1998” in Robert Boily, ed, *L’année politique au Québec 1997-1998* (Montréal : Les Presses de l’Université de Montréal, 1999).

¹⁰⁸ William Coleman, *The Independence Movement in Quebec, 1945-1980* (Toronto: University of Toronto Press, 1984) at 13.

of the workplace in Québec. Big business was not on the PQ's side, and the PQ retaliated by making business donations to parties illegal. The introduction of a law banning corporate donations and imposing a ceiling on individual contributions to the province's parties was one of the PQ's first acts in office in 1977 (Bill 2, which came right after Bill 1, also known as Bill 101, the language law). At the time of its unanimous adoption by the National Assembly, Bill 2 was the first legislation of its kind in Canada. Lévesque wanted to reduce the influence of corporate money on Québec politics. Businesses and interest groups could no longer use their money to manipulate power. Only citizens would be allowed to contribute to parties. In return, the government would compensate for the reduced financing entailed by these measures by making allocations to political parties.

According to Graham Fraser, "The reform that Lévesque cherished the most was the election-financing legislation, Bill 2. Indeed, he expressed more emotion about political fund-raising than about anything else".¹⁰⁹ What Fraser termed the "old slush-fund tradition" was part of Québec's political folklore; donations were secret and were quietly repaid with government contracts. This was one of the reasons for the Liberal government's unsavoury reputation. Bill 2 reflected the PQ belief that corporate donations were a major cause of corruption in Quebec. It was intended to sever the link between corporate wealth and political parties.

With Bill 2, Lévesque also wanted to create a level playing field for his sovereignist party. In Québec, big business is strongly federalist. "Without a ban on corporate donations the 'Yes' camp would have been reduced to countering the federalist referendum artillery with sticks and stones", writes Chantal Hébert.¹¹⁰ The draft election-financing law was initially strongly opposed by the Liberals and the Chamber of Commerce as a restriction on freedom of opinion and expression. The 1977 law has since been emulated in numerous jurisdictions, including at the federal level, where donations can no longer come from companies and must be less than \$1,000 per person. But a retired executive at the Roche engineering firm reported at the inquiry that the landmark Québec election-financing law that inspired similar reforms across Canada has been systematically flouted since its inception. He said that within three years of the PQ-initiated political reforms of the late 1970s, unscrupulous fundraisers were already circumventing them. He estimated that less than 10 per cent of funds collected at the municipal level, and 20 per cent at the provincial level, actually came from legal eligible donors. As for the rest, corporate money quickly breached the barricade set up by the 1977 law. He said it was easy to find people to pose as donors because they would get reimbursed and receive the added bonus of a tax credit. "A few years later – I'd say two or three years later - the law was being outsmarted", he told the inquiry. "The director general of elections didn't check and it was easy to find strawmen because of the tax credit. Everyone called me because it was essentially a \$300 gift".

¹⁰⁹ Graham Fraser, *PQ: René Lévesque and the Parti Québécois in Power* (Toronto: MacMillan, 1984) at 114-115.

¹¹⁰ Chantal Hébert, "Quebec corruption inquiry: Public Policy Can't Be Treated Like a Sacred Cow" *The Toronto Star* (May 1, 2013) online: The Toronto Star <<http://www.thestar.com>>

Between 1998 and 2009, Accurso and his employees illegally donated up more than half million to the Liberal party. “Never ask a politician to help you, just not to hurt you”, he recounted in his testimony to the Commission. “I never ran after anyone to give them money. When the demands came in, we did what we had to do”. Commission lawyer Sonia LeBel presented a picture of Accurso embracing former premier Jean Charest at a fundraiser held at his Laval restaurant in 2001. The entrepreneur explained that he offered up his restaurant and supplied the food and drinks. The picture is signed by Mr. Charest, who wrote: “Thanks for your support”¹¹¹. Accurso detailed his donations to politicians over the years, saying he felt it was the best way to ensure that government officials would not block or delay his projects. “No one makes a \$3,000 cheque out of conviction”, he told the inquiry. “I was afraid of the possibility of reprisals from politicians”. Figures compiled by the Commission show that between 2002 and 2008, Accurso and his employees made donations ranging from \$50,000 to \$90,000 a year to the Québec Liberal Party. From 1998 to 2009, the donations totalled \$556,000.

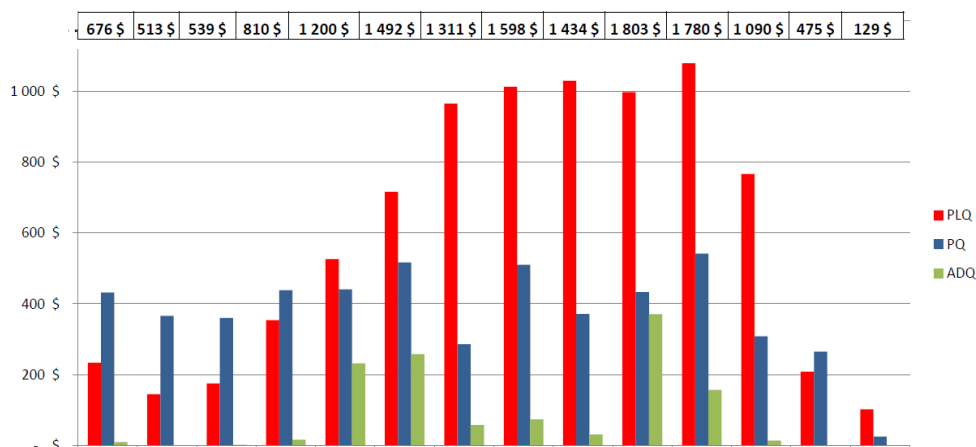
A senior SNC-Lavalin vice-president told the Commission that his firm arranged for its employees to donate hundreds of thousands of dollars in illegal donations to the Liberal Party each year during the 2000s. Portions of a sealed police affidavit released by a Québec Court judge revealed that two former SNC-Lavalin vice-presidents, each told police that their job included the unofficial responsibility of monitoring and arranging for political financing.¹¹² The men said that former SNC-Lavalin CEO Jacques Lamarre informed them of this responsibility, and that they had been in contact with a senior Liberal fundraiser to arrange for donations to the party. SNC-Lavalin employees acted as straw donors and the company reimbursed them.

Numbers released by the Commission show that even in their *legal* financial contributions, engineering firms have a strong bias toward the Liberal Party. As Figure 5 indicates, the twelve firms that obtained most of the Department of Transport’s contracts for engineering services (87 per cent or \$2.5 billion) donated 14.8\$ million between 1998 and 2011. Firms gave much more to the Liberals (56 per cent) than to the PQ (36 per cent). A similar preferential treatment is found in the political donations of the largest construction companies. Sixty-five per cent of the \$2.3 million they gave to parties between 1998 and 2011 went to the Liberals. It is true that the Liberals receive more because they have been in power for a longer period of time. But even when the PQ is in power (1998-2003), it does not receive anywhere near the amount that the PLQ gets when it forms the government.

¹¹¹ A spokesman for Mr. Charest, Grégory Larocque, said the pair were “not close” and interacted only three times during Mr. Charest’s career. The picture was one of many taken during a fundraiser for Thomas Mulcair, who was a Liberal MNA in Laval at the time.

¹¹² Monique Muise, “New Portions of Affidavit Point to Illegal Political Financing by SNC-Lavalin” *Montreal Gazette* (November 11, 2014) online: <<http://www.montrealgazette.com>>

Figure 5: Political Contributions by Engineering Firms Obtaining Most of the Department of Transport's Contracts



Such a pattern contradicts an important body of work on “business pragmatism” suggesting that corporations tend to split their contributions 50-50 between the two major parties in two-party systems.¹¹³ In Canada for instance, the major banks and large corporate donors give equal amounts to the Liberals and Conservatives.¹¹⁴ But in Québec business is not as uniformly generous toward the two governing parties. Firms are more politically connected to the Liberal Party.

One specific advantage brought to firms by this connection is stability against the risks of secession brought by the PQ. As economists have emphasized, politicians will often be tempted to extract at least some of the rents generated by connections.¹¹⁵ One hypothesis derived from this work would be that the PQ’s rise to power in the 1970s has made Québec business more dependent on the Liberals for political and economic stability. This, in turn, would have allowed party operators to extract a rent from business in the form of preferential funding.

CONCLUSION

This paper has stressed the embeddedness of corruption in the overarching institutional structures of the political economy. I used the Québec case to develop an alternative to discontinuous models of institutional change and to suggest a more appropriate middle

¹¹³ Iain McMenamin, “If Money Talks, What Does It Say? Varieties of Capitalism and Business Financing of Parties” (2012) 64: 1 *World Politics* 1 at 38.

¹¹⁴ Stephen Brooks & Andrew Stritch, *Business and Government in Canada* (Scarborough, Ont.: Prentice-Hall, 1991) at 287.

¹¹⁵ Mara Faccio, “Politically Connected Firms” (2006) 96 *The American Economic Review* 369 at 386.

ground between the functionalist, “oversocialized” view of systemic corruption, and the “undersocialized”, neoclassical position of the principal-agent in anticorruption research and policy, according to which behavior transcends contexts.

The shift of societies from a systemically corrupt social order to a less corrupt one is never achieved once and for all, as “big bang” models of change lead us to believe. Revolutionary models of change pay insufficient attention to the adaptive nature of systemic corruption and are ill-equipped to explain its persistence in advanced welfare states. New institutions to improve the “quality of government” created in episodes of political “big bang” may help deter corruption only in the short-time. But there is ample evidence to believe that the long-run impacts could be quite different. For example, it could take corrupt officials time to learn how to manipulate a new system, so the long-run effects of an anti-corruption policy could be smaller than the short-run effects.¹¹⁶

As the evidence presented at the Charbonneau inquiry reveals, in Québec systemic corruption in construction was *not fully disembedded* from society and the economy by the dramatic institutional changes toward establishing better government that took place at the time of the Quiet Revolution. But neither was it so *deeply embedded* that it remained impervious to its changing formal institutional environment. Anticorruption research too often assumes that formal institutions and rules are overtaken or superseded by the informal institution of systemic corruption¹¹⁷. Such a position is reminiscent of society-centric and rational-design analyses that downplay the autonomous role of state institutions and public policies and that focus only on their intended effects.

Formal institutions may not have the power to root out systemic corruption from society, but this does not mean that they have no effect on it. Rather, they provide the structure of incentives that helps define the costs and benefits of participation in corrupt exchanges. They leave their own imprint on patterns of corruption.

Different “varieties of capitalism” produce different patterns of corruption. Québec is characterized by a coordinated market economy (CME) and testimonies at the Charbonneau inquiry have highlighted the extensive involvement of key socio-economic partners in corrupt exchanges. The Québec model of development entrusted private economic actors with quasi-public functions. Citizens’ outrage over the violation of this public trust may encourage politicians to combat corruption by reducing the size of government. But in the Québec case, this would be like “throwing the baby out with the bathwater”. The quality of government is the problem, not its quantity.

¹¹⁶ Benjamin A. Olken & Rohini Pande, “Corruption in Developing Countries” (2012) 4 *Annual Review of Economics* 479 at 509.

¹¹⁷ “Where corruption is systemic, the formal rules remain in place but they are superseded by informal rules. Where systemic corruption persists, the formal rules clash with informal and deeply ingrained patterns of social behavior and such formal rules are not sufficiently capable of altering such behavioral patterns”, Roberto Laver, *Systemic Corruption: Considering Culture in Second-Generation Reforms* (Harvard University, Edmond J. Safra Working Papers, No. 45, 2014) at 11.