

# Review of Business and Economics Studies

Вестник исследований бизнеса и экономики

DOI: 10.26794/2308-944X

The journal was reregistered  
in the Federal Service for Supervision  
of Communications,  
Informational Technologies,  
and Mass Media:  
PI No. ФС77–67072  
of 15 September 2016

Издание перерегистрировано  
в Федеральной службе по надзору  
в сфере связи, информационных  
технологий  
и массовых коммуникаций:  
ПИ № ФС77–67072  
от 15 сентября 2016 г.

**Publication frequency –  
4 issues per year**

**Периодичность издания –  
4 номера в год**

**Founder: “Financial University”**

**Учредитель: «Финансовый университет»**

The Journal is included in the core of the  
Russian Science Citation Index (RSCI)

Журнал включен в ядро Российского  
индекса научного цитирования (РИНЦ)

The Journal is distributed by subscription.  
Subscription index: 42137  
in the consolidated  
catalogue “The Press of Russia”

Журнал распространяется по подписке.  
Подписной индекс 42137  
в объединенном  
каталоге «Пресса России»

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## *AND ECONOMICS STUDIES*

(*ROBES*) is the quarterly peer-  
reviewed scholarly journal published  
by the Financial University under  
the Government of Russian  
Federation, Moscow. Journal's  
mission is to provide scientific  
perspective on topical economic  
and business subjects.

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ISSN 2308-944X



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комн. 5.6  
Тел. +7 (499) 553-10-74  
(вн. 10-88)  
Интернет: <https://rbes.fa.ru/jour>

Журнал "Review of Business and  
Economics Studies" («Вестник  
исследований бизнеса и эконо-  
мики») зарегистрирован в Фе-  
деральной службе по надзору  
в сфере связи, информационных  
технологий и массовых ком-  
муникаций 15 сентября 2016 г.  
Свидетельство о регистрации  
ПИ № ФС77-67072.

Подписано в печать: 24.03.2022.  
Формат 60 × 84 1/8.  
Заказ № 200  
Отпечатано в Отделе полиграфии  
Финансового университета  
(Ленинградский проспект, д. 49).  
16+



# **Review of Business and Economics Studies**

*Volume 10, Number 1, 2022*

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**Вестник  
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*№ 1, 2022*

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ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-1-6-13  
JEL Codes: D26, E51, E52, E58, O16

# The Monetary Reform Debate as the Continuation of the Long-Standing Currency vs Banking School Debate and the Identification of Its Long-Overdue Resolution

Plamen Ivanov, Richard A. Werner

## ABSTRACT

**Aim.** Since the 2008 crisis, an increasing number of economists and commentators have been calling for fundamental reform of our monetary system and financial architecture. In particular, banks have been heavily criticised, and policy proposals include the demand to abolish banking. Such calls for monetary reform are not new. In 19<sup>th</sup> century England, a policy debate among economists and policy-makers fell into two main camps, the so-called Currency and the Banking Schools. The former argues for centralisation of money issuance, the latter for decentralised money creation. **Theses and methods.** We show that present debates on reforming the monetary system, including introducing central bank digital currencies and a drastic shrinkage (if not elimination) of commercial banking, continue this familiar dichotomy, of which the protagonists seem unaware. In addition to pointing out that present-day debates about monetary reform merely restate the centuries-old positions of the Currency and Banking School protagonists, we argue that it is high time to resolve the dichotomy between the two schools. We do this by presenting and explaining an **empirically** successful compromise between the extreme positions of the two schools of thought that achieves the goals of both. **Results.** It consists of the successful decentralised banking structure of countries such as Germany, whose banks are mostly not-for-profit enterprises in public and/or local hands that lend mainly for productive business investment, while a central bank exists that can avoid crises by monitoring aggregate bank lending for non-GDP (asset) transactions. **Conclusion.** We believe this constitutes an important contribution to the present debate about the potential reform of national and international financial architectures.

**Keywords:** “Currency School”; “Banking School”; David Ricardo; Thomas Took; credit operations; central bank

**For citation:** Ivanov Plamen, Werner Richard A. The monetary reform debate as the continuation of the long-standing Currency vs Banking School debate and the identification of its long-overdue resolution. *Review of Business and Economics Studies*. 2022;10(1):6-13. DOI: 10.26794/2308-944X-2022-10-1-6-13

ОРИГИНАЛЬНАЯ СТАТЬЯ

## Дебаты о денежной реформе как продолжение давних дебатов «Денежной школы» против «Банковской школы» и определение давно назревшего решения

Пламен Иванов, Ричард А. Вернер

## АННОТАЦИЯ

**Цель.** Во-первых, результаты проведения анализа ситуации, сложившейся после кризиса 2008 г. призывают к фундаментальной реформе денежно-кредитной системы. В частности, резкой критике подверглись банки. Звучат призывы политиков упразднить банковскую деятельность. Во-вторых, подобные предложения не новы. В Англии XIX в. политические дебаты среди экономистов и политиков разделились на два основных лагеря: на «Денежную (Валютную)» и «Банковскую школу». Первая выступала за централизацию

эмиссии денег, вторая – за децентрализацию. **Тезисы и методы.** По мнению авторов, нынешние дебаты о реформировании денежной системы, введении цифровых валют и резком сокращении (если не ликвидации) коммерческого банкинга продолжают эту знакомую дихотомию. Авторы считают, что современные дебаты о денежной реформе просто повторяют позиции сторонников обеих школ. Значит, пришло время разрешить дихотомию между двумя школами, представляя и объясняя **эмпирическим методом**, доказанный успешный компромисс между крайними позициями двух школ. **Результат.** Он состоит из успешной децентрализованной банковской структуры таких стран, как Германия, чьи банки в основном являются некоммерческими государственными или муниципальными организациями, предоставляющими кредиты для бизнеса. В то время как центральный банк занимается мониторингом всех банковских кредитных операций, не связанных с ВВП (активами), что помогает избежать серьезных банковских кризисов. **Выводы.** Авторы убеждены, что этот успешный опыт необходимо использовать не только в научных дискуссиях, но и при разработке практических подходов к потенциальному реформированию национальной и международной финансовой архитектуры.

**Ключевые слова:** «Денежная школа»; «Банковская школа»; Давид Рикардо; Томас Тук; кредитные операций; центральный банк

**Для цитирования:** Иванова Пламен, Вернер Ричард А. Дебаты о денежной реформе как продолжение давних дебатов «Денежной школы» против «Банковской школы» и определение давно назревшего решения. *Review of Business and Economics Studies*. 2022;10(1):6-13. DOI: 10.26794/2308-944X-2022-10-1-6-13

## 1. Introduction

The 2008 crisis highlighted ‘flaws’ in macroeconomics, see, for example, Greenspan’s Congressional testimony), especially the omission of banking [1]. The realisation that banks create money when they grant credit [2–4] triggered attempts to introduce banking into DSGE models [5, 6] and a debate about which role banks and central banks *should* play in the economy. Some propose to fully concentrate the power of money creation in a monopolistic central bank [7–9]. On the other end of the spectrum are those criticising the central banks for the policy failures that caused the 2008 crisis [10] and calling for a decentralised system of credit-creating private banks responding to the financing needs of the real economy [11–13], or consider central banks unnecessary [14–16].

This debate between those who want a central bank and no banks vs those who want banks and no central bank repeats the unresolved dispute between the Currency and Banking Schools, a prominent feature of the monetary economic policy discourse in the 19<sup>th</sup> century. Recent economic history suggests that financial crises trigger such discourse about the architecture of the monetary and financial system. So far, central banks have gained greater powers, to which the private banking sector responded with financial engineering to maintain its influence. Figure 1 illustrates the three waves over the last 200 years.

Since the present debate and proposed reforms repeat the unresolved dispute between the Currency

and the Banking Schools of the 19<sup>th</sup> century, we consider it important to find a balance between the extreme positions of the two Schools that serves as an acceptable compromise as it enables proponents of both Schools to claim victory by delivering their key declared policy aims. At the same time, this compromise is shown to have delivered superior economic performance.

### 1.1. Currency School

The Currency School advocates a centralised monetary system with a powerful central bank representing the public while abolishing the other banks (e.g., rendering them non-bank financial intermediaries in a ‘full reserve’ system). Influential economists such as Ricardo [17], Mises [18] and Fisher [19] advanced such proposals in earlier epochs.

Ricardo’s Plan for the establishment of a National Bank was to appoint five central bank commissioners, “in whom the full power of issuing all the paper money of the country shall be exclusively vested” [17, p. 15]. Two decades later, the 1844 Bank Charter Act seemed to implement Ricardo’s proposal in England and Wales, rendering the Bank of England (although privately owned) the sole issuer of bank notes. This apparent Currency School victory was short-lived: Banks continued to create credit money via ledger-entry, today’s dominant digital currency, whereby ca. 97 per cent of the money supply is created by the banks [3]. Furthermore, the ‘bank wars’ in the US failed to establish a lasting central bank

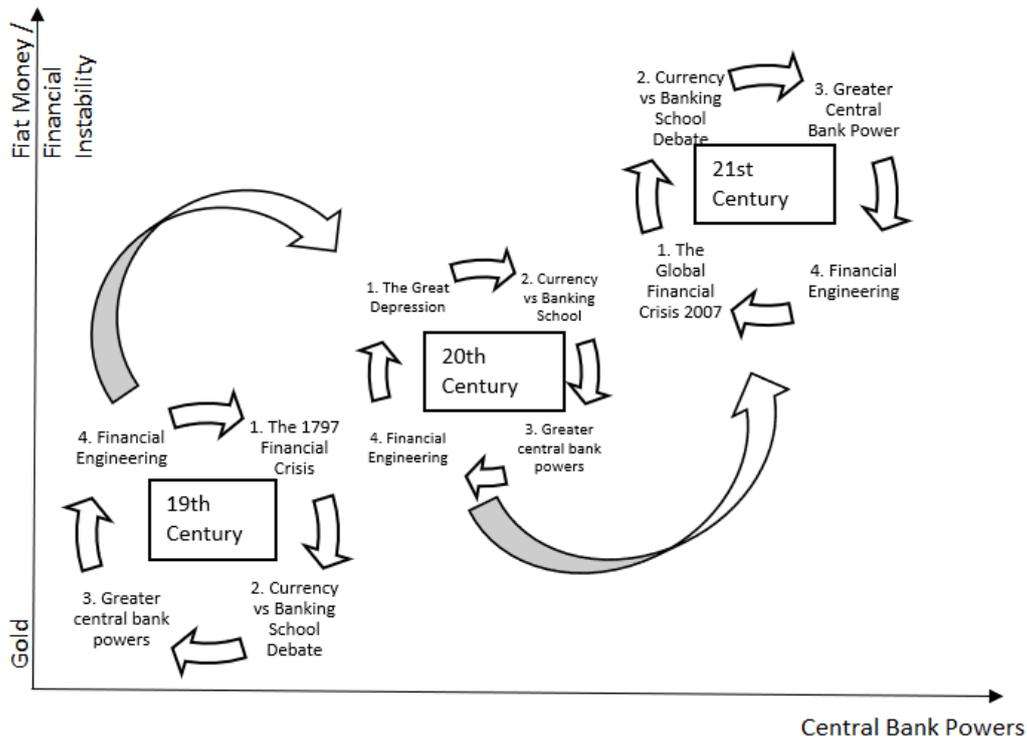


Fig. 1. Currency-Banking Debates over the last 300 years

Source: Central Bank Powers.

institution until 1913, leaving the Banking School the victor, with decentralised bank credit creation in an almost ‘free banking’ regime.

Irving Fisher [19] revived the Currency vs Banking School debate during the Great Depression in the US by repeating the call to end bank credit creation and turn banks into mere financial intermediaries, as this was seen a way to end bank runs, eliminate inflations and deflations and mitigate booms and depressions. In formulating his plan, Fisher had not analysed the role of the central bank in causing the significant boom-bust cycles in the US, nor its failure to step in and prevent banking crises from turning into an economic depression – despite this having been the declared justification for the establishment of the Federal Reserve in the first place [20]. Fisher’s plan was ignored in the US and the country continued to boast the largest number of banks in any one nation (at close to 30,000 banks at the peak in 1920, closely followed by Germany; and despite losing over 10,000 during the 1930s).

However, the Fisher plan to abolish banks did seem to describe the situation in the Soviet Union at the time. It thus may have been inspired by it: Here, taking control of the banking system and concentrating it into one single monobank had

already been a prime target of Lenin after the Bolshevik Revolution, which was eventually realised with the economic reforms of 1930–1932, when Gosbank became the monopolist central bank of the Soviet Union and largely maintained this role for the following half-century. No doubt Lenin’s economic views were influenced by another classical economist publishing in England, namely Karl Marx, who in the communist manifesto of 1848 had argued for the introduction of a single state bank:

“5. Centralisation of credit in the hands of the state through one national bank with state capital and in exclusive monopoly” [21, p. 16].

Lenin concurred around the time of the Bolshevik Revolution:

“Without big banks, socialism would be impossible. The big banks are the ‘state apparatus’ which we need to bring about socialism, and which we take ready-made from capitalism. . . . A single State Bank, the biggest of the big, with branches in every rural district, in every factory, will constitute as much as nine-tenths of the socialist apparatus. There will be country-wide bookkeeping, country-wide accounting of the production and distribution of goods; this will be, so to speak, something in the nature of the skeleton of socialist society. [Italics in the original] [22, p. 106].

Lenin also wrote soon after:

“Banking policy must not stop with the nationalisation of banks, but must work slowly but decisively toward the transformation of banks into a single accounting apparatus for the regulation of the organised socialist economic life of the country as a whole.” [22, p. 220].

According to Garvy [23], Lenin

“was impressed with the technical functions performed by the extensive branch networks dominating the scene in Germany, the United Kingdom, France, and indeed, Russia itself, rather than with the possibility of using monetary and credit policy as a tool for restructuring the economy and achieving adequate growth and stability” [p. 22].

While the dissolution of the Soviet Union discredited the idea of the central bank as a sole monopoly bank on the world stage, after the 2008 crisis this idea was revived by Benes and Kumhof [7] and others who argue that the credit creation privilege should be concentrated and vested in public hands, and with the same justification as Fisher presented, namely to prevent banking crises. Again, as with Fisher, the proponents of banking centralisation and Soviet-style monobanking do not present any analysis of the role and responsibility of the central banks in the run-up to the 2008 banking crisis and their choice to ignore warning voices (such as [3, 24]). After the crisis, central bank policies reduced bank profit margins, significantly increased regulatory burdens and costs and even imposed a new tax on banks in the form of negative interest rates on banks’ reserve holdings at banks. In the Eurozone, this resulted in thousands of banks disappearing. Under the watch of the ECB, 4,800 have disappeared, and their number has also been declining in the US. Central banks thus appear to be getting closer to the goal of ultimately becoming the only bank left. Central banks’ preparations to compete directly against private-sector banks by offering current accounts to the public (somewhat misleadingly called ‘central bank digital currency, despite banks having been offering their own widely used digital currency for many decades) seems to advance this agenda further, as CBDC will likely drive banks out of business [25, 26].

This revived Currency School proposal has drawbacks [11, 13, 27]. Krugman [28] fears abolishing banks would “drive even more finance into shadow banking and make the system even riskier”. “[S]uch a system would become even more terrifyingly pro-cyclical, indeed a recipe for disaster” [13, p. 6], as

banks would financially engineer recapture of inside money creation, as after 1844 – a justified concern in the era of cryptocurrencies. Further, inelastic money supply [12] is likely to restrict growth and leave it at the mercy of anti-growth central banks that appear to be more concerned about “de-growth” recently in order to reduce carbon emissions:

“If more countries turn their Paris commitments into legislated objectives and concrete actions, the financial system will amplify the impact of their efforts by advancing sustainable investments and shutting down unsustainable activity. [29].

## 1.2. Banking School

Banking School proponents such as Thornton [30] and an earlier like-minded economist, John Law [31], recognised the important role banks played through their power to create credit and hence stimulate economic growth. Tooke [32] was another Banking School economist who argued against the 1844 Bank Charter Act. Their argument was that decentralised banking and hence money creation can respond flexibly to trade needs as bankers knowledgeable of entrepreneurs and their new technologies allocate newly created money productively, delivering growth and prosperity [31, 33]. The US economy seemed to prosper during decades without a central bank. Scotland’s economy boomed during its free banking era. Thriving banking systems in Hong Kong, Luxembourg and Liechtenstein allowed prosperity and vibrant capitalism without central planners. As long as banks lend to the real economy, crises can be avoided.

In the recent debate about monetary reform, the proposal by centralisers such as Benes and Kumhof [7] and Kotlikoff [9], who wish to abolish banks, have been opposed by Goodhart and Jensen [13]. They argue that the track record of decentralised banking for economic growth and prosperity is very good. Meanwhile, the need for a central bank could be said to be less obvious [25]. Thus voices like Goodhart and Jensen can be seen as modern proponents of the Banking School.

## 2. Integrating the Currency vs Banking School Proposals

Many combinations are possible between the extremes of “only a central bank and no banks” on the one hand and “only banks, no central bank”. A common pattern is a central bank and a private

banking oligopoly. Currency School proponents criticise this as it “delegates a core public function — the creation of money — to a private and often irresponsible commercial oligopoly.” [34].

Yet both schools want to avoid a return to credit-driven boom-bust cycles and ensure money creation is used for the ‘real economy’, not asset purchases [3, 8]; the Banking School always favoured bank lending to the ‘real’ economy, a recently self-declared goal by central banks that appears to be following the logic of Werner’s Quantity Theory [2, 3]; see for instance the reasoning for the ECB’s TLTROs).

A better balance between central bank and banks exists and has delivered prosperity and financial stability for the benefit of the wider public for the past 200 years. It did so by combining key features of both Currency and Banking Schools — it retained banks in a flexible, elastic and decentralised system able to react to business needs but returned the power of money creation to the people. This system has been in operation almost since Ricardo’s day and has outperformed alternative banking architectures. As shown in Table 1, it is the decentralised structure of many small cooperative and savings banks (‘community banks’), which are locally accountable or locally publicly owned and return their profits to local stakeholders.

### Community Banking in Germany

There are ca. 1,700 banks in Germany (most in the EU), of which ca. 80% are not-for-profit community banks that deliver over 90% of all lending to small and medium-sized enterprises (SMEs). “‘Relationship lending’ is one of the most powerful technologies available to reduce information problems in small firm finance ...” [35, p. 32]. Memmel’s et al. [36] study of 16,000 firm-bank relationships in Germany found small and R&D-intensive firms prefer relationship lending due to improved access to “patient capital” — a key function performed by the community banks.

The German SMEs are usually family-run and scattered across Germany’s regions, with “... the [typical] firm ... heavily tied to its local community, despite being open to the world: [with] strong ties to ... community banks” [37, p. 148]. The community banks help keep these SMEs competitive by funding upgrading technology. The decentralised small-scale banking architecture put money creation into the hands of the local public. It allowed Germany to out-class any other nation in the world terms of the

number of SMEs that are global market leaders in their market niches (called ‘Hidden Champions’, since these firms are so small, their names are little known, despite holding number 1, 2 or 3 market share in the world in their respective niches). Germany boasts over 1,300 such Hidden Champions, far ahead of the largest economy with a very decentralised banking system, namely the US, which only has 366 Hidden Champions.<sup>1</sup>

The existence and steady support of local community banks in Germany explains why small German firms can be so successful and account for a substantial proportion of Germany’s record-breaking exports, on occasion larger than China’s: small German firms are able to swiftly upgrade their production to the latest available technology because their local small banks support them. On the other hand, research in the US has shown [38] that large banks are less interested in lending to small firms; small banks are more prone to lend to small firms. Hence economies with concentrated banking systems dominated by a small number of large banks are characterised by credit supply problems for small firms (as is the case in the UK). Mkaiber and Werner [38] even found that when small banks grow larger, they will also cast their lending net more towards larger firms. Thus there is a steady need to create new small banks.

There are other benefits from community bank dominated decentralised banking systems: Barboni and Rossi [40] find community banks serving economies better during and after the 2008 crisis. Small firms in Germany suffered no credit crunch. Unemployment stayed low. Community banks produce more stable earnings, are less likely to default and have fewer non-performing loans [41]. No tax money was ever used to bail out a community bank and no depositor has lost any money in 200 years. The dominance of community banks has prevented boom-bust cycles and banking crises in Germany.

### 3. Conclusion

German-style community banking constitutes a viable combination of the attractive features of the Currency and Banking School proposals. Money creation should only be returned to the people, as the Currency School demands if there is meaningful accountability — which is more likely to happen at a small, local scale; there is little chance to

<sup>1</sup> On other secrets of success of German firms, see Mear and Werner (39).

Table 1  
Community Banks and the Currency-Banking School Dichotomy

Key Proposal	School of Thought		Community Bank System (money creation in the hands of the public)
	Currency School	Banking School	
Money Sovereignty	✓	✓	✓
Credit Supply Elasticity	✓	✓	✓
Real economy lending	✓	✓	✓

Source: The authors.

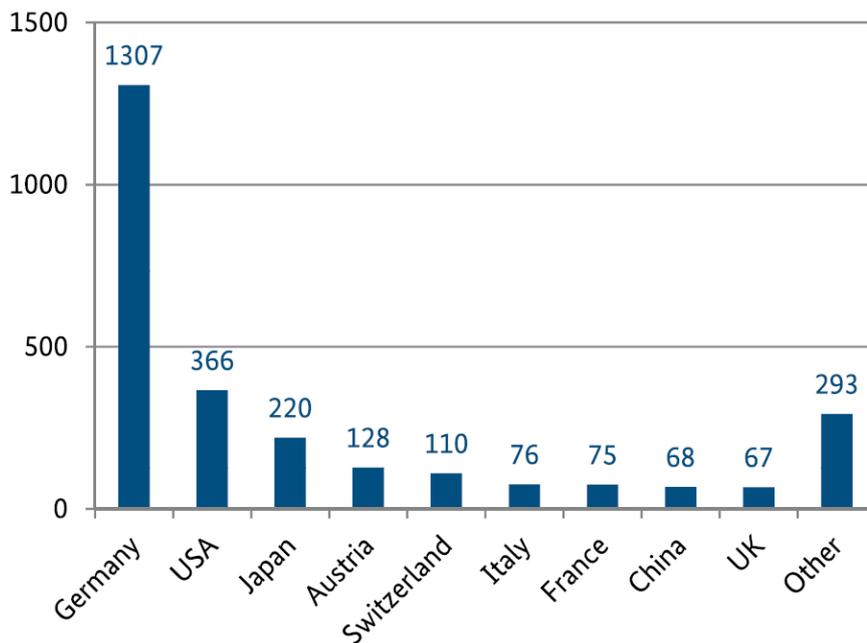


Fig. 2. 'Hidden Champion' SMEs in international comparison

Source: German Ministry of Economics and Technology (2012).

hold a Gosbank to account (already, the ECB seems above meaningful accountability). A German-style community banking system also fulfils the Banking School's demand for decentralised decision-making by bankers that have 'kicked the tires' of tens of thousands of SMEs instead of a 'Committee of Six' central planners. Countries such as the UK, with concentrated banking systems, are more prone to boom and bust cycles, and SMEs struggle to raise finance. Even central banks appear powerless when dealing with only a small number of too-big-to-fail banking giants that may be able to capture the regulator. Instead, when the majority of banks are not-for-profit enterprises in public and/or local hands that lend to and create credit money mainly for investment by small and medium-sized enterprises, resulting in non-inflationary growth, the central bank finds it easier to monitor aggre-

gate bank credit creation to ensure that it is mainly for productive business investment and not for non-GDP (asset) transactions. The financial stability of the German-style decentralised banking system has also been superior. During its existence as the main central bank (i.e. until the creation of the ECB), the German central bank, the Bundesbank, managed to entirely avoid bank credit-driven asset bubbles as overseen repeatedly by central banks in concentrated banking systems, such as the UK or some Scandinavian countries.

When overseen by a prudent central bank, the compromise monetary system design delivered high economic growth in Germany, Japan, Korea, Taiwan, and China.<sup>2</sup>

<sup>2</sup> The Japanese experience since ca. 1985 is testament to the importance of the word 'prudent' in the previous sentence. As Werner (2003/2018, 2005) has shown, it was the central bank

We believe this constitutes an important contribution to the present debate about the potential reform of national and international financial

in Japan that decided to expand bank credit creation for non-GDP (namely property purchase) transactions between 1986 and 1990 using its informal guidance of bank credit (a.k.a. window guidance), in order to engineer a 'structural transformation of the economy' by triggering a major financial crisis and prolonged recession.

architectures. Community banks in the UK would improve banking services, end the recurring boom-bust cycles and banking crises, and address the problem of low productivity, as community banks mainly lend for business investment, not asset purchases. This compromise could be implemented with few practical obstacles as new local community banks can be founded at a low cost.

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ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-1-14-23  
JEL Codes: E4, E51, E52, E58, O16

# Digital Quasi-Money by Payment Systems

Igor Varyash

## ABSTRACT

**Aim.** The article substantiates the assumption of the emergence of a new form of money – digital quasi-money, as a means of payments and settlements. **Method.** The author discussed the role of the currency of the payment system as a national payment unit that has the property of conversion in national and international payment systems. It reveals specific examples of its appearance by multiplying private currencies (cryptocurrencies) and their mutual conversion with the national digital currency at a fixed rate. **Results.** The author presented a theoretical explanation of the two-tier monetary system. **Conclusion.** Particularly, the author concluded that it leads to additional emission of money into intra-economic circulation, mobilizing the transformation of inventories and personal savings into investments, and makes it possible to strengthen protection from external funding restrictions.

**Keywords:** finance; monetary policy; cryptocurrency; electronic payments and settlement

**For citation:** Varyash I.Y. Digital Quasi-Money by Payment Systems. *Review of Business and Economics Studies*. 2022,10(1):14-23. doi: 10.26794/2308-944X-2022-10-1-14-23

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Платежные системы и цифровые квазиденьги

Игорь Варьяш

## АННОТАЦИЯ

**Цель.** В статье обосновывается тезис о появлении новой денежной формы – цифровых квазиденег как платежно-расчетного средства. Рассматривая роль валюты как национальной платежной единицы, обладающей свойством конвертации в национальных и международных платежных системах, **методом** компаративного, автор выявил и сопоставил конкретные примеры ее появления путем умножения частных валют (криптовалют) и их взаимной конвертации с национальной цифровой валютой по фиксированному курсу. В **результате** дано теоретическое объяснение возникновению двухуровневой денежной системы. **Выводы.** Наличие двухуровневой денежной системы приводит к дополнительной эмиссии денег во внутрихозяйственный оборот, мобилизации превращения товарно-материальных запасов и личных сбережений в инвестиции, позволяет усилить защиту от ограничений внешнего финансирования.

**Ключевые слова:** финансы; денежно-кредитная политика; криптовалюта; электронные платежи и расчеты

**Для цитирования:** Варьяш И.Ю. Платежные системы и цифровые квазиденьги. *Review of Business and Economics Studies*. 2022;10(1):14-23. DOI: 10.26794/2308-944X-2022-10-1-14-23

## 1. FX in payment systems

To overcome the systemic global crisis, the IMF proposes a reboot of the global financial system by means of zeroing debts in exchange for the adoption of a common global digital currency, which will not belong to any one country but will be universal. This approach assumes that national currencies with their burdensome

hedging will not be needed for mutual settlements in foreign economic relations. But this project is unlikely to be viable since the world follows the opposite path of expanding monetary systems (according to [2]).

In addition to the fact that digital payment systems are now being tested in several American states, their projects are beginning to be imple-

mented in China, the EU, Switzerland, Austria and are being discussed in Russia. Moreover, cryptocurrencies are becoming more widespread, revealing the properties of world money, the emission of which depends on global business activity.

It has always been believed that a two-tier monetary system is an evil that must be liquidated as soon as possible in order to gain national independence. An example is a dollarization, which is considered as giving up national sovereignty.

Perhaps this was relevant before the digital economy. Today, the globalization of business and financial markets has so widely penetrated the world economy that economic sovereignty has turned out to be relative. The United States managed to somewhat shake the faith of the world community in this mechanism of a market economy as a result of the unbridled use of sanctions, but not to destroy it. Now its relevance is increasing in new conditions and in new circumstances, as a mechanism of a two-tier monetary system – national currencies and private national currencies that play the role of world money.

Glazyev S.Y. has noted: “On the international financial market, there are signs of manipulation of currency quotes, which negatively affect the economies of the EAEU countries [22]. Additional problems are created by unequal monetary and economic exchange, which is associated with different prices of money in different markets and concerns capital flows and pricing. It also applies to the internal economic structures in the Russian Federation, in which territorial-administrative entities have virtually different monetary conditions.

The primary issue of introducing digital currency is the formation of its social base. The personification of cryptocurrency is possible only in relation to organized groups of several (1 + n) individuals and/or organizations, as it happens on social networks.

Money turnover is an important part of business activity, which, in its turn, is a kind of social capital of the economy, which is reflected by business reputation, trademarks, produced intellectual property, reflected in intangible assets. Until recently, software and the organization of digitalization of money circulation did not stand out from this circle, although financial interaction cooperation, obviously, is a component of social capital.

A cryptocurrency can be officially registered under the condition of real collateral, estimated in the national currency, and in this case, itself becomes an “unproduced intangible” asset (according to the SNA) of the group’s social capital. Therefore, the digitalization of monetary payments, which significantly expands the boundaries of monetary interaction, can be conditionally called the currency of social capital (capital of social money, MSC<sup>1</sup>), which, from the point of view of monetary theory, is a derivative financial instrument – along with monetary surrogates and quasi-money – securities, warehouse receipts, futures, and other instruments.

The release of cryptocurrency must be carried out by authorized financial institutions that open accounts of personal investment capital [4, Varyash, Denisov, et al.] in the corresponding digital currency. The profit from the issue of cryptocurrency in the form of the difference between, on the one hand, the cost of issuing and maintaining electronic records databases and, on the other hand, their denomination, goes to the state treasury.

This currency will have the right to exist if it becomes accepted as highly liquid collateral for provisioning against bank lending risks, provisioning in non-credit financial institutions, hedging and refinancing, reflected in management accounting, balance sheet and profit and loss statements. To ensure the liquidity of the currency of social capital, it is necessary to organize its circulation in the foreign exchange market. Unfortunately, this issue is not considered by the initiators of the “digital currency” at all, although this is an indispensable condition for its institutionalization.

In fact, MSC extends the practice of bank deposits to the entire national financial system. The institution of the social reservation will increase the security of primary financial systems in the economy as a tool to improve the efficiency of risk

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<sup>1</sup> Social capital is a relatively new definition in economics, introduced into scientific circulation by P. Bourdieu, as a resource of social ties that can be a source of income [1]. J. Coleman supplemented the definition with the term “exchange” [2], and R. Putnam operationalized social capital as social norms, social connections and trust [3]. In the cognitive economy, the core of social capital is goodwill, databases, business relationships, etc. At present, in the financial market, supply is formed in addition to traditional instruments through corporate pension savings schemes, initiative budgeting in territorial entities, which can also be attributed to social capital.

management in the face of increasingly destructive effects of financial and economic crises.

The most important fundamental issue of using the circulation of cryptocurrencies is the protection of property rights to money and the freedom of their owners in choosing a target placement. For the first time, there is an opportunity to legislate the right of citizens and organizations to have their funds transferred to the management of financial intermediaries.

On the one hand, it is impossible to restrict people's ownership of their money. This will cause a tsunami of public outrage. On the other hand, it is also impossible not to restrict the movement of funds in the direction of the shadow economy and financing of war, terrorism, and fraud. The law should clearly indicate the boundaries of the mandatory personification of the movement of cryptocurrency within the boundaries of investments in projects (programs, initiatives) with state participation. Everything else is at the request of the owner of the funds.

The increase in the number of currencies and, in a sense, the expansion of their impact on the economy is an alternative to these methods [6]. But this direction requires significant investments and awakening the activity of the whole society, trust in political and monetary authorities. In fact, this is a new social agreement, which outlines comprehensive measures to protect the interests of the contracting parties, primarily property rights and financial security.

The program for the formation of the institution of the currency of social capital requires a considerable amount of time, which is by no means infinite. Of course, the currency of social capital cannot and will not save humanity from the dangers of destruction, but it will make it possible to resist external financial and economic restrictions on development more effectively than today.

## **2. The place and role of currencies of payment systems in Russian monetary policy**

Digital currency is a hidden form of additional monetary emission that stretches the lag of impact on the economy and makes its impact on price increases less visible. This circumstance requires a study of the transmission mechanism of the impact of cryptocurrency on the

economy. Unsubstantiated arguments about strengthening the financial stability of the economy in the introduction of a poorly controlled additional source of monetary emission, which is not associated with the monetization of the economy, will only exacerbate financial crises that will put an additional burden on budgets. This consideration partly explains why the central bank deals with the national cryptocurrency, and not the Ministry of Finance, which needs fiat money and not a reserve cryptocurrency. But it explains only partially since it is the budgetary risks that should have intensified the participation of the budgets of the state budget system in solving the problem of additional emission.

A national digital unit is a form of payment. The Bank of Russia report on the prospects for the introduction of the crypto-ruble states: "Citizens will be able to credit digital rubles to their electronic wallets and use them using mobile devices and other media, both online and in the absence of access to the Internet and mobile communications (that is, in offline mode)" [2]. Such a monetary surrogate can only be a settlement one for conversion between a fiat ruble and a corporate, territorial, cluster, network cryptocurrency. In retail – instead of bonuses, gifts, discounts, etc., in production – instead of self-supporting rubles, in the household – for records of income and expenses of all family members.

The national electronic currency can solve the problem of different values of money depending on territorial and sectoral characteristics. It is long overdue to unify the national currency in the territories of one jurisdiction, which requires a mechanism for converting the local cryptocurrency into the national one. The same applies to interstate settlements – a converter is needed that allows you to transfer cryptocurrencies one into another, bypassing cross rates to world currencies, primarily to the dollar, which is becoming more and more volatile due to fluctuations in socio-political tension in the country – the issuer and requiring everything more hedging.

In Russia, the electronic ruble can also be useful in the household for comparing the income and expenses of individual family members in accordance with the changing conditions and circumstances of their life. Thus, electronic money acquires use-value while remaining at the same

time an abstract measure of value, being comparable (convertible) with fiat money.

The development of the national cryptocurrency depends on three conditions: 1) the formation of the institution of national cryptocurrency rubles, 2) the possibility of converting one cryptocurrency into another in national jurisdictions and in foreign jurisdictions, 3) the provision of cryptocurrencies with basic assets – gold and foreign exchange reserves (international reserves), financing of state programs, social capital (except for financial pyramids), etc.

It is necessary to provide for the relationship of ruble cryptocurrencies with debt policy; banks can create reserves for risks together with organizations and households in their cryptocurrency, which will allow more fully than now, to take into account the peculiarities of borrowers.

It can be even more in demand when placing bonded loans on the open market due to the personification of the relationship between investors and borrowers. In banking, cryptocurrency provides a technical opportunity to get away from the problem of impersonal investors, which is especially important in the formation of the institution of personal investment capital [4] and in compliance control.

Cryptocurrency cannot come from anywhere; this is a national infrastructure project that will require very significant funds. The introduction of new mechanisms, schemes and instruments of payments and settlements requires a long time, a social contract with the authorities, economic development, ensuring the creation and development of the necessary production base, energy sources, financial competence in organizations and among the population, the formation of new specialities and the mass graduation of specialists in middle and the highest level, the implementation of fundamental scientific research, applied scientific and technical and scientific and methodological developments. Securing the crypt alone will cost a significant amount of funds.

There is also a need to attract organizations and people to invest in this project. So far, they are in no hurry to part with their funds for the sake of government programs, considering 40 per cent of tax and social payments to the budget sufficient. It is also pointless to ask society whether it needs such revelations before the authorities as to the exposure of the financial condition – it is

clear that they are not needed. For the electronic ruble, it is necessary to form the demand for technological clusters. To find out the need for them can be done through surveys, as is widespread in marketing; after all, one must understand who the “stakeholders” are.

It is assumed that all three forms of the Russian ruble will be absolutely equal – in the sense that just as now, 1 ruble in cash is equivalent to 1 non-cash ruble, so one digital ruble should be equivalent to each of the indicated ones. In fact, in the North of Russia, the digital ruble will be easier for consumers than in the South, in Moscow, it is easier than in Tmutarakan, in oil and gas fields, it is easier than in rural areas, in the defence industry, it is easier than in local industry, it is easier for young people than for the elderly, for the incompetent it is easier than for the educated and experienced, etc.

In fact, the idea of the digital ruble of the Bank of Russia is not fundamentally new: “in addition to cash and funds in bank accounts, the options available to citizens for making payments and settlements in digital form will expand” [5], in addition to making it easier to control the blockchain. It means that only one function of money is taken into account – a means of payments and settlements, and not at all measures of value and not savings (world money and thesaurus are not yet mentioned). The Central Bank itself believes that “cryptocurrencies” are not money. Since they cannot fully fulfil all the functions of money, they cannot be used as a measure of value and a store of value, given the volatility of value expressed in official monetary units.

It is naive to expect that the proliferation of digital payments will lead to lower transaction costs. On the contrary, the payment and settlement infrastructure development requires significant funds. Thus, during the transition to cash euro in 2002, unexpectedly for the ECB, an issue of about half a trillion euros was required in addition to the cash already issued.

The preference for operations with portfolios of currency pairs speaks in favour of cryptocurrencies, for which the electronic ruble can be the base currency in currency pairs [7]. A significant result of the introduction of this system will be to reduce the burden on the budgets of budgetary systems in case exceeding the upper limit of transaction costs of countercyclical policy (3% of GDP).

The uncontrollably used methods of quantitative easing and additional taxation, incommensurate with the real growth rates of the economy, only reduce the potential for economic growth.

The increase in currencies and the expansion of their functions are, to a certain extent, an alternative to the indicated methods. But this direction requires significant investments and awakening the activity of the whole society, trust in political and monetary authorities. In fact, this is a new social agreement, which outlines comprehensive measures to protect the interests of the contracting parties, primarily property rights and financial security.

### 3. Digital currency unions

The EAEU and China can carry out settlements either in national currencies or in their own supranational currency to avoid losses associated with exchange rate volatility and not be dependent on international sanctions. It is the conclusion reached by the participants of the forum “Conjugation of the Eurasian Economic Union and the Chinese initiative “One Belt, One Road”.

To overcome the systemic global crisis, the IMF proposes a reboot of the global financial system employing zeroing debts in exchange for adopting a common global digital currency, which will not belong to any one country but will be universal [9]. This approach assumes that national currencies with burdensome hedging of their conversion will not be needed for mutual settlements in foreign economic relations.

But this project is unlikely to be viable since the world follows the opposite path of expanding monetary systems (according to F. Hayek [6]). In addition to the fact that digital payment systems are now being tested in some American states, their projects are beginning to be implemented in China, the EU, Switzerland, Austria and are being discussed in Russia. Moreover, cryptocurrencies are becoming more widespread, revealing the properties of world money, the emission of which depends on global business activity.

According to the Bank of Russia, in February 2020, the Central Banking website (Great Britain) published the results of a survey on the possibilities of using digital currency by the central bank (Central Banking Digital Currency Survey), in which 46 central banks took part (Central Bank-

ing 2020a) [5]. According to the survey, 65% of the surveyed central banks, most of which belong to Western Europe, conduct research in the field of digital currencies, which is explained, among other things, by the transition to non-cash payments in the countries of this region.

The Central Bank of Switzerland and the Bank for International Settlements (BIS) planned to jointly test the central bank’s digital currency (CBDC) by the end of 2020 [12]. It was announced by the head of the innovation department of BIS Benoit Kere during the summit in Shanghai, reports the Chinese edition of The Paper. Kere clarified that in the next two months, the project should enter the stage of “proof of concept” this will allow beginning research on the suitability of digital currency for retail users. He noted that within the testing framework, the possibility of establishing a link between CBDC and existing payment systems would be studied, and a check for compliance with legislation would be carried out. BIS expressed hope that financial regulators of Hong Kong, Thailand, and other countries will join the initiative in the future. It will allow us to move on to testing.

In the United States, the federal reserve banks of Cleveland, Boston (together with the University of Massachusetts), and New York (together with BIS) are developing software and conducting technological experiments on the use of cryptocurrencies [15]. The Federal Reserve Bank of Boston is working with researchers at the Massachusetts Institute of Technology (MIT) to develop a hypothetical central bank digital currency. Powell concluded that the Fed has yet to decide to issue a digital currency. In the United States, legislation is envisaged to allow the opening of accounts for individuals with the Fed, which would be the obligations of federal banks with the FRS for emergency payments. The US authorities are paying attention to the potential benefits of the emergence of a digital currency and the possible risks. Powell mentioned the need to protect the digital currency from cyber attacks, counterfeiting and fraud. The question is how it will affect monetary policy and financial stability and how it can prevent illegal activity while maintaining the privacy and security of users. He said that one of the experiments is being conducted by the Federal Reserve Board in Washington. The regulator is exploring the prospects for introducing a crypto

dollar in partnership with other central banks and the Bank for International Settlements (BIS).

In Japan, the decision to launch the digital yen will depend on public support, said Kazushige Kamiyama, head of the Payment Systems Department of the Bank of Japan, who is responsible for exploring the possibility of issuing a digital currency. [13] If a digital currency were to emerge, it would aim to strengthen the transactions ecosystem and complement cash and non-cash payments, not replace them. “We made it clear that cash and digital currency will coexist,” Kamiyama said. Cash remains the main means of payment in Japan. The Bank of Japan is considering launching the digital yen to improve the efficiency of Japan’s payment system, rather than expanding the money supply. Fintech companies could play the role of intermediaries to expand access to the new currency, and the regulator is now discussing whether they should have a special license.

The People’s Bank of China has launched the digital yuan in test mode for farmers in four pilot regions. The population’s demand for digital currency is growing, so its launch needs to be accelerated, said the head of the PBC I Gan [14]. He is confident that the digital yuan will play an important role in the development of the country’s economy, writes 8btc with reference to the People’s Daily. According to the head of the PBC, using the new currency will improve the security of retail payments, making them more convenient and efficient. He spoke about this at the Third China Digital Summit with the participation of Tencent, Baidu and Alibaba. In October, the digital yuan was tested in China, the drawing of the national cryptocurrency of the PRC was held on 12 October, and users who received it made 62.79 thousand transactions for \$ 1.3 million. During the week, users spent 88 per cent of the funds provided; some participants bought another 900 thousand digital yuan. The digital yuan is being tested in major cities, including Shenzhen and Xiong’an. It is supposed to use the national cryptocurrency at the Winter Olympics, which are planned to be held in Beijing in 2022.

The EU working group on 20 October, 2020 published proposals to introduce a digital euro to ensure the financial security of European companies in the United States [8]. According to the European Central Bank (ECB) report on cryptocurrency for the euro zone, Europe should be ready

to issue a digital euro if the need arises, published on 2 October [16]. The new asset can be useful in the absence of cash and in emergency situations, such as the coronavirus pandemic, the authors of the document say. The ECB stressed that no specific decisions have yet been made on the issue of the digital euro. The regulator said that it will not become an alternative or substitute for cash but will supplement it. The central bank representative stressed that the cryptocurrency would aim to provide citizens with free access to simple, universal, secure and reliable means of payment. “The digital euro would also symbolize Europe’s readiness to embrace change and lead in supporting the digitalization of the European economy,” the ECB said in a report.

Its authors named four scenarios in which a digital euro can be issued:

- increased demand for electronic payments,
- a significant drop in the demand for cash,
- launch of private digital currencies,
- massive digital issuance of national currencies by other central banks.

If talking about the first scenario, then, of course, the demand for digital currencies is increasing, including due to the spread of coronavirus infection, says Roman Yankovsky, IP/IT practice advisor at Tomashevskaya & Partners, lecturer at Moscow Digital School. However, electronic payments themselves do not require the introduction of any new digital currencies; there is already an existing acquisition. Therefore, this option will not lead to the transition of people to electronic currencies, the expert believes. The head of the analytical department of AMarkets Artem Deev is of the opposite opinion. According to him, the launch of the digital euro is due, among other things, to the massive and widespread transition to non-cash payments and the gradual abandonment of cash – this is the near future of the whole world. A. Levashenko, member of the Commission on Legal Support of the Digital Economy of the Moscow Branch of the Russian Lawyers’ Association, added that the launch of the digital euro would reduce the costs of issuing money, utilizing and transporting cash, limiting the shadow economy, with due observance of the requirements for combating the laundering of proceeds from crime.

The European Commission has presented the rules for the regulation of cryptocurrencies and

stablecoins, as reported by its vice-chairman Valdis Dombrovskis in an official press release [17]. He explained that the field of digital assets has become widespread. Therefore, it is essential to give companies the opportunity to take advantage of its advantages and reduce risks for investors and maintain the financial system's stability. Also, the European Commission plans to launch a regulatory sandbox where firms can test smart contracts and blockchain-based products. Improved regulations will help develop better financial products and open up new funding channels. "The Commission seeks to stimulate innovation in the EU financial sector, especially for high-tech digital startups, while mitigating any potential risks," Dombrovskis said. He stressed that more stringent requirements would be imposed on stablecoins, such as Facebook's Libra project. It is due to the potentially huge scale that such cryptocurrencies can achieve in terms of user reach, it can threaten financial stability.

For this reason, it is important to implement reliable security measures, including against fraud and money laundering. Dombrovskis added that the future of finance lies with digital technologies. The process of digitalization of the economy accelerated, as during the quarantine, people began to use banking and other financial services via the Internet, and the share of contactless payments increased. In December 2019, the European Union did not allow the use of stablecoins such as Libra on its territory. The EU Council explained that the legalization of the circulation of such cryptocurrencies is possible only after the identification and elimination of all legal and supervisory risks.

Bank of Russia Governor Elvira Nabiullina at the Russia Calling! VTB Capital Forum spoke about the alleged impact of the digital ruble on banks' business model [22]. "The introduction of the digital ruble may affect banks' business models. We understand this and want to hear how banks see it. Yes, liquidity management may become somewhat more complicated, but here the Central Bank is ready to adjust its instruments so that banks do not have concerns. The structure of income will change. The costs of individual operations will fall, but the convenience will lead to a higher volume of such operations. The most important thing is that we want to make this system open, so that all financial market participants (not only banks, payment systems, and so on) develop their

services based on the digital ruble, and offer new services." The regulator emphasizes that now it is necessary to "actively study" the issue from an economic and technological point of view. The Central Bank intends to evaluate the effectiveness of the digital ruble "in close contact with society, experts and financial market participants." The Bank of Russia accepts feedback on the report until 31 December 2020. The collection of opinions on the report will start on 12 October. In parallel, the regulator will begin to conduct experiments in cooperation with "all stakeholders". The ECB assured that the regulator would liaise with the relevant institutions and authorities to assess the digital euro's legal, economic, and financial requirements.

JPM Coin, a cryptocurrency issued by JPMorgan Chase, will be used commercially for the first time [18]. The head of the company's payment division, Takis Georgakopoulos, said that the first user of the new currency was a large technology company, the name of which was not specified, CNBC reports. JPMorgan also announced the creation of a new Onyx division dedicated to digital currencies and blockchain. Onyx has over 100 employees and the division, according to Georgakopoulos, was created in connection with the transition from design work to real business. JPMorgan is considering creating dedicated payment channels for central banks interested in issuing their own digital currencies.

Toyota Systems, the IT arm of Toyota, will release and pilot its digital currency. [19] The token will be created using the DeCurret blockchain platform. Toyota Systems said that digital currency testing would be conducted among 2,500 employees of the company. They will be able to receive tokens as a reward, store them in their personal blockchain wallets and exchange them for prizes. Thus, the possibilities of using blockchain solutions in the company's business model will be investigated. If testing is successful, digital currency could be used in the supply chain or for payments between enterprises in the future. "Toyota Systems will test the feasibility of digital currencies in supply chain and inter-enterprise transactions based on the results of this pilot. Payment and settlement mechanisms will be investigated," the press release says.

The financial group Mitsubishi UFJ also plans to release its token. In July, the president of the

company, Hironori Kamezawa, announced that it would launch the MUFG token in the second half of 2020 [20]. Initially, the digital currency was supposed to appear for the Summer Olympic Games in Tokyo, but in the second half of 2019, due to banking legislation restrictions, the release date was delayed.

A. Greenspan believed that the Fed could counteract the overvaluation of assets. Apparently, one of the ways could be strengthening the stability of the national currency up to limiting the floating rate and capital movement. Today, the globalization of business and financial markets has so widely penetrated the world economy that economic sovereignty has turned out to be relative. The United States managed to somewhat shake the faith of the world community in this mechanism of a market economy as a result of the unbridled use of sanctions, but not to destroy it. Now the relevance of the two-tier monetary system is increasing in new conditions and in new circumstances as a mechanism for the cryptocurrency to play the role of world money, national currencies and private national currencies.

Thus, a two-tier EU monetary system would mean the introduction of a cashless digital euro and the resumption of the issuance of national currencies in digital format. The same could be for the CIS / EurAsEC, where interstate non-cash digital currency and national digital currencies can be issued. (One could call the CIS / EurAsEC currency “tar” in memory of Great Tartary). The issue of a supranational crypt can be carried out by all states belonging to the corresponding monetary union.

EU projects hydrogen euro instead of the petrodollar. The idea, if not premature, is undoubtedly very long-term. To create a hydrogen euro as a global means of payment, it is necessary to occupy a significant share of the world market for hydrogen production. However, today there is a share and the market itself; hydrogen is produced in negligible, by the standards of industry, sizes. In addition, it should be borne in mind that for its production in industrial quantities, energy is needed, which is already lacking. It turns out to be a vicious circle: new energy needs so much old that it turns out to be unprofitable. A new technological revolution is needed.

For several months in a row, there has been a net inflow of capital into the “gold” ETF-funds,

whose shares are backed by a precious physical metal [10]. Since the beginning of 2020, \$ 55 billion has been invested in such funds. This fact suggests that the liquidity of the cryptocurrency, the underlying asset of which is physical gold, has great prospects. The largest ETF in the world remains the American SPDR Gold Shares (GLD), which accounts for 33 per cent of the market, and has 1,268.5 tons of gold in its reserves (as of September 2020). The iShares Gold Trust is in second place with 518.1 tonnes of gold in reserves and a 13 per cent market share. The German ETC-fund Xetra-Gold has 222.4 tons of gold in its reserves, ranking it in fifth place in the world. Since the beginning of 2020, investors have invested \$ 969.8 million in its shares. In total, all German “gold” funds were able to attract \$ 1115.1 million, as a result of which they were in third place in terms of capital inflows after the United States and Great Britain. The restructuring of the National Welfare Fund in Russia with the prospect of allocating a share of precious metals in it is discussed.

A cryptocurrency can be exchanged for gold if it is accepted by gold miners and processors who can issue the corresponding cryptocurrency together. The advantage of gold cryptocurrency is the transfer of gold liquidity to the electronic record that represents it, which is vital for modern production. But this is also a disadvantage since the gold cryptocurrency requires more hedging than in other segments – the price change on it reaches more than 10 per cent.

And yet, the gold cryptocurrency can solve the problem of its use not only to move away from the dollar in payments using alternative technological platforms in relation to SWIFT but also as a single settlement measure, although for this it is necessary to form a gold cartel by analogy with OPEC +.

### Conclusion

The idea of a single common human language (“Esperanto”) was embodied with the help of a programming language that all computer scientists in the world use. So it is with the single world currency – it will be an electronic record secured by the assets of the cognitive economy, including monetary gold.

It would seem that the introduction of a new currency is very controversial, if not hopeless. However, modern foreign exchange market research reveals higher profitability of transactions

with arbitrage of currency pairs than with individual currencies due to the maximization of the used volatility strategy. The same study leads to the conclusion that the market is reversing to expand the pluralism of currencies.

A significant aspect of introducing ruble-denominated cryptocurrencies into circulation is its obvious opposite of the devaluation of the national currency to maintain stable ruble income in export-oriented areas of economic activity. Export targeting has been at the forefront of monetary policy over the past decades, despite the high volatility of hydrocarbon prices, including the extremely high politicization of their markets.

But since the establishment of the OPEC+ regime and the relief of direct pressure from the United States, as well as the development of segments of the export of food, military equipment and manufacturing products, including precious metals, the need to follow export targeting has become less and less urgent, as evidenced by the turn of the Russian government to move away from containment of inflation by “quantitative tightening”.

Due to the increasing diversity of social capital is expressed in an expanding monetary system, one of the most dynamically developing segments of which are cryptocurrencies. The expansion of monetary systems is aided by digitalization by increasing the transaction costs of the cognitive economy. It seems that they will increasingly manifest themselves as a link between the banking and non-financial sectors of the cognitive economy.

The advantage of cryptocurrencies over credit/ fiat money lies in virtually unlimited diversity due to social differentiation by groups of market participants – international, jurisdictions, territorial, as well as industrial, trade and social networks. The marginal cost of hedging limits the expansion of the range of currencies.

Based on monitoring the expectations of foreign exchange markets, a forecast index of the ratio of credit/fiat currencies to the specified cryptocurrencies can be calculated by analogy

with the dollar index. It is especially important for Russia to plan cooperation in international monetary and monetary, and financial relations between the EurAsEC, SCHOS, BRICS countries. The valuation of the national currency by its ratio with local cryptocurrencies, expressed by the market’s expected values of the national currency index, is necessary for participants in commodity markets in the analysis of monetary factors in the formation of market conditions.

A significant result of introducing this system will be to reduce the burden on the budgets of budgetary systems, which have exceeded the upper limit of transaction costs of countercyclical policies (3% of GDP). Just like the straightforward methods of quantitative easing and additional taxation, which are incommensurate with the real growth rates of the economy, the artificial limitation of the monetization of the economy reduces the potential for economic growth.

Instead of transferring ownership of money during the transition to the digital ruble, it is proposed to “move the digital code from the database (electronic wallet) of one “user” to the database (electronic wallet) of another “user”. Thus, it is assumed that electronic money is kept in the ownership of the Bank of Russia, and not the government and not the depositors of fiat funds, although the Bank of Russia, when forming “wallets”, only technically performs transmission, but does not transfer ownership.

By increasing currency diversity, the Bank of Russia would need to get rid of the unusual functions of the institutional regulator of the financial sector, as well as transfer the functions of regulating the securities market (bonds and shares, precious metals, derivatives, electronic payments and settlements, non-credit financial intermediation services) to a specialized organization of the type how commodity markets are regulated, while retaining the institutional regulation of the interbank market and bank lending for the Central Bank.

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ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-1-24-40  
JEL codes: B40, B52, C30, D21, D40, D90, L19, O14, O32

# A Schumpeterian Model of Duopolistic Competition

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## ABSTRACT

**Aim.** This paper models the dynamics of technological change through the competitive interaction of two firms. The duopolists strive to outperform each other by exploiting the two fundamental Schumpeterian forces of economic development: innovation and imitation. **Method.** By extending over a number of periods a technological “limit-pricing model” (whereby the “learning-by-doing effect” is the source of the barrier to entry) and assuming that the two firms compete following one another in the role of innovator and imitator. As **result**, it is possible to trace out the paths followed by the market shares of both producers and to derive endogenously a unit cost curve characterizing the industry in the long run. **Conclusion.** A further merit of the model presented herein is its representation of a “micro-macro transition phase” – viz., the passage from individual practice to industrial standard – through a simplified but, nonetheless, *realistic* depiction of behavioural routines.

**Keywords:** Industrial organization; firm behaviour; innovation; imitation; technology; technological change; Schumpeter; dynamics; learning economies; paradigm shift; industrial competition; duopoly

**For citation:** Preparata Guido G., Preparata Giuliano. A Schumpeterian Model of Duopolistic Competition. *Review of Business and Economics Studies*. 2022;10(1):24-40. DOI: 10.26794/2308-944X-2022-10-1-24-40

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Шумпетеровская модель дуополистической конкуренции

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## АННОТАЦИЯ

**Целью** статьи является презентация **метода** моделирования динамики технологических изменений посредством конкурентного взаимодействия двух фирм. Дуополисты стремятся превзойти друг друга, используя две фундаментальные шумпетеровские силы экономического развития: инновации и подражание. В **результате**, распространяя на ряд периодов технологическую «модель предельного ценообразования» (где «эффект обучения в процессе работы» является источником возникновения барьера для входа) и предполагая, что две фирмы конкурируют друг с другом в роли первопроходца и последователя, можно проследить пути, по которым следуют рыночные доли обоих производителей, и вывести эндогенно кривую удельных издержек, характеризующую отрасль в долгосрочной перспективе. Авторы делают **вывод**, что достоинством представленной модели является характеристика «фазы микро-макро» перехода, который, в отличие от перехода от индивидуальной практики к промышленному стандарту, посредством упрощенных, но, тем не менее, реалистичных рутинных действий.

**Ключевые слова:** промышленная организация; твердое поведение; инновации; имитация; технологии; технологические изменения; Шумпетер; динамика; обучающаяся экономика; смена парадигмы; промышленная конкуренция; дуополия

**Для цитирования:** Препарата Г.Г., Препарата Дж. Шумпетеровская модель дуополистической конкуренции. *Review of Business and Economics Studies*. 2022;10(1): 24-40. DOI: 10.26794/2308-944X-2022-10-1-24-40

## 1. Introduction

This article is divided into four parts. The first presents the background of our problem, namely that of building a model that portrays an industry's evolution highly sensitive to the effect of technological pressure. Our main propositions, which will be derived from Schumpeter's ideas on the nature of development, are an attempt to provide further insights into the economic impact of innovation. The ground plan for this analysis — the second part of the paper — is set by looking first at one possible way of tackling this problem: a limit-pricing model by Dosi will be briefly described and examined. Two basic equations of Dosi's pricing mechanism will be retained in the construction of our own model; these two equations will be complemented by a group of assumptions that will radically alter the original strategic framework and give rise to a conceptually different perspective on the dynamics of competition. The third section is the exposition of the model. Our general scheme allows for several possible scenarios: the parameterization and the following discussion, which conclude the paper, centre on the special case for which the same two firms alternate “endlessly” in the role of innovator and imitator.

## 2. Background

In the vision of Schumpeter [1], the engine of modern capitalism is propelled by a complex and devastating force: technology. Human discoveries aiming at increasing societies' overall productivity through sophisticated machinery and the reorganization of labour along new technical guidelines behave like seismic waves that disrupt old productive routines and social conventions built on these economic foundations. The industrial terrain is thus forced to make room for new devices, which will reshape the system and alter the nature of the economic network. The trajectory traced out by this sequence of innovative shocks portrays the essential dynamics of competitive markets. Creativity gives birth to a novel “solution”, and growth follows: the newly marketed technology evolves, reaches maturity and finally decays as the next revolutionary idea supersedes it. The life-cycle of every innovation is depicted by the well-known L-shaped, “Learning-by-doing” curve, which features unit costs as a decreasing function of time and output. In *time*,

men learn as they produce more: they learn, modify and improve the product. The prolonged energy and effort — both manual and conceptual — devoted to the development and perfection of a pathbreaking idea are punctuated by that trial-and-error scansion which progressively lowers the cost of production. The cumulative path of industrial transformation translates into a sequence of several learning-by-doing descents, each breaching out at a higher level of technical efficiency than the previous one. Such a path is smoothed by the “polishing” effect of *imitation*: any major innovation is followed by a number of incremental steps which represent adjustments and refinements of the original concept. From the microeconomic perspective, depending on the revenue flows, the level of knowledge acquired, and the industrial sector's history, a producer can choose to innovate or imitate. By linking up in time these choices, one obtains the *industry's macro-dynamic picture*, which shows how swathes of successive innovations spawn clusters of technical refinements that give rise to an *aggregate learning curve*. We shall provide a rather coarse description of this transition from the micro-state (the set of routines adopted by agents) — namely, the R&D programs enacted within the corporate fences, the ensuing learning-by-doing vicissitudes, and the mixed attempts pursued by rivals to copy the innovative solution — to the *macro-state*, that is, the aggregate learning curve characterizing the industry, by narrowing the focus of the analysis on two rival firms seeking to dominate the market by means of technological advance.

## 3. A Limit-Price Model

The duopolistic scenario presented here draws partly on a *technological* limit-pricing model formulated by Dosi [2]. Dosi assumes that two agents compete: on one side, a Schumpeterian entrepreneur takes advantage of his monopolistic position; on the other, an imitator who attempts to enter the market, after a period  $T$  since the date of innovation with a copy of the original, innovative solution, produced at a lower cost than that of the innovator. Faced with this possibility, the innovator will have to consider a trade-off between higher *short-run* profits if he allows entry at time  $T$  (since he may charge a high price from 0 to  $T$ ) versus higher

long-run profits if he foregoes an immediate monopolistic rent temporarily, impeding entry effectively.

In other words, the former strategy implies that a monopolist desiring to make the most out of his protected invention by selling it at a high price immediately will shortsightedly hurt his position in the longer term by allowing, in fact, the imitator to make a profitable entry in the market: the cheaper copy, as soon as it is marketed, will eventually drive the innovator out of the market. It is what is meant by short-run profits: in the long-run, when an imitation of the original idea has been perfected, the ex-monopolist is eliminated. The second course of action, instead, allows the innovator to bank on the learning factor and force down, in time, his average cost of production, and thus the selling price: at time  $T$ , the Schumpeterian innovator would then find himself more competitive than a potential imitator. The threat of (hostile) entry is thus kept at bay by concentrated effort on technological inventiveness.

Therefore, if the monopolist adopts a limit-pricing strategy, he will charge at time 0, conscious that very likely he will lose competition at time  $T$ , a price which is just below the desired level of the entrant at that time, and yet one which guarantees a *general markup* – computed over the cumulated production from 0 to  $T$  – high enough to compensate the high costs of innovation. Evidently, the markup of the innovator,  $m_i$ , must be greater than the price-cost margin  $m_m$  which ensures the imitator the minimum level of profitability. “If learning curves are sufficiently steep, this condition will always be met” (2, p. 123). In other words, counting on the possibility to “come down along” his learning curve, the monopolist will be able to recover the initial costs by means of the limit-price. Dosi encapsulates the “learning-by-doing effect” by assuming that the formula for determining the price level is cumulative production,  $\beta$  is the learning coefficient,  $c_0$  is the initial cost of production level, and  $m_i$  is the mark-up over cost. The above formula says that the price level decreases as the cumulative production increases: as a firm produces more, it learns more and therefore abates costs, and is finally able to charge a lower price for the good (this is the essence of the inverse relationship between  $P_t$  and  $X_t$ ). Dosi also assumes that the demand function has a constant elasticity:

$$x_t = f(P, t) = AP_t^{-\alpha},$$

where  $A$  is the market size. The production cost of the entrant is given by the following expression:

$$c_e = c_0 g(t).$$

It is, *by assumption*, equal to that of the innovator minus a certain percentage  $g(t)$  based on the “watch-and-learn” effect. If the monopolist does not engage in learning, the imitator can eliminate the leader after a time  $T$  if  $c_0 X_t^{-\beta} - c_0 g(T) > 0$ . On the other hand, if he decides to exploit learning economies, he will set the limit-price equal to:

$$P^* \leq m_m c_0 g(T).$$

Let  $m^*$  be the limit-price mark-up defined by:

$$m^* = \frac{P^*}{c_0 X^{-\beta}}.$$

Therefore, the limit price markup, in this model,  $m^*$ , depends on:

- $m_m$  the minimum rate of profit for the entrant,
- $T$ , the imitation time-lag,
- $\beta$ , the “learning-by-doing” coefficient,
- $g(t)$ , the “learning-by-imitating” curve,
- $aA$ , the absolute size of the market.

#### 4. The Model

Now suppose that two firms coexist in an industry in which one gets the jump on the other through an early innovation. At this point, we are varying the **scenario** sensibly by *assuming that the monopolist is somehow forced to face a more competitive imitator at time  $T$* . It means that the strategic component, namely the mark-up, ceases to have any significant role in our model. The new underlying idea is that imitators always manage to enter the market, as the word implies. The pressing forces behind technological refinements – our notion of imitation – are irresistible.

By making this critical change, the model’s focus which will be developed hereafter will no longer be predicated on barriers to entry but rather on the effects of “learning-by-doing” upon the dynamics of a hypothetical, duopolistic industry. In this new framework, we will not see a producer

setting a price based on his expected technological performance; instead, producers will try to calibrate, to their own advantage, the level of investment necessary to carry out the two basic strategies of industry (in this highly rarefied theoretical scheme): imitation and innovation. Thus, this is not a setting in which the firm determines once and for all the course of action that will shape the environment, but rather one in which the firm, having only two options at its disposal (innovation and imitation), sets out to enact either one when conditions allow it (these will be explained in detail) in order to “stay ahead of the game.” In other words, the central issue here is not the impact of a certain decision (as it is for limit-pricing models), but the cumulated industrial dynamics triggered by agents who will make predictable use of two basic productive strategies (again, innovation and imitation).

The assumptions of the model are the following:

*Assumption 1:* The strategic variable, the markup, no longer plays an important role: the dynamics of the model will be determined exclusively by the technological achievements of the competitors. These will try to dominate the market by means of greater technological knowledge. There is no way to prevent the competitor from improving the original idea. Although the present model will make use of a set of equations somewhat similar to that used by Dosi, it cannot be viewed as a variation on the theme of limit-pricing, for no weight is given to the markup.

Specifically, we do assume that firms earn a profit margin above their production costs but that these margins are roughly equal for both firms: *what makes the difference is the absolute cost level*. The more efficient producer, the one who controls the more sophisticated machinery, will be able to undersell the rival, and the way to look at this phenomenon is to concentrate the attention on the unit cost function of both firms: the presence of a profit margin is understood, but its relevance in the economy of the model is nil.

*Assumption 2:* The inevitable entrance of a competitive imitator (i.e., with a cheaper copy of the original idea) at time  $T$  will not lead to the immediate demise of the innovator: owing to factors such as market inertia, brand loyalty and long-dated contracts, to cite a few examples, we assume that the innovator, once the competition

starts, is not ousted outright from the market but continues to meet the demand *in inverse proportion to his production costs*. That is, at any moment in time, there are two market shares, one for the firm  $a$  and one for firm  $b$ . These shares stand in a ratio inversely proportional to that of the firms' unit production costs (the higher the cost, the lower the share).

To grasp the essence of the model, the reader has to bear in mind that both firms compete in order to provide a certain service; they strive to satisfy a determined need of the consumers: thus, they cater to demand — which represents a *single* well-specified want — with *two* (for this particular model; there may be  $n$ ) different, technologically competing products (e.g., transistors and semiconductors both satisfy the demand for computation, just as, for listeners, vinyl records and compact discs were *two* alternative devices for musical reproduction, which, in turn, having one of them come back in vogue, are being challenged in tandem by digital platforms and MP3s). It is why there may be, at any moment, two different prices (costs) on the market, one for each of the technologies marketed as solutions to one problem.

### The Dynamics

The duopolistic competition comprises successive *cycles* (see figure 1): at time 0, a cycle has just come to an end with firm  $a$  having won the competition and thus operating at a cost level lower than that of firm  $b$ . It is the situation at time  $-\varepsilon$ . At time 0, firm  $a$ , by virtue of its cumulated *profit* advantage over  $b$ , is ready to innovate. It is the third fundamental hypothesis.

*Assumption 3:* The firm that has been more profitable at the end of a competitive cycle ends up with sizeable funds — profits — that will be channelled into Research & Development. A firm believes (this is the basic strategic driving *force*) that access to higher technology translates into supremacy on the market; therefore, it will attempt, whenever it can, to set aside sufficient resources wherewith to fund research projects.

*Assumption 4:* The proceeds thus invested will bring about *unfailingly* an innovation, which is then immediately launched on the market: we assume our agents to be powerful trusts bent on exploiting mass-produced innovations to secure corporate success. It is a heroic assumption: of

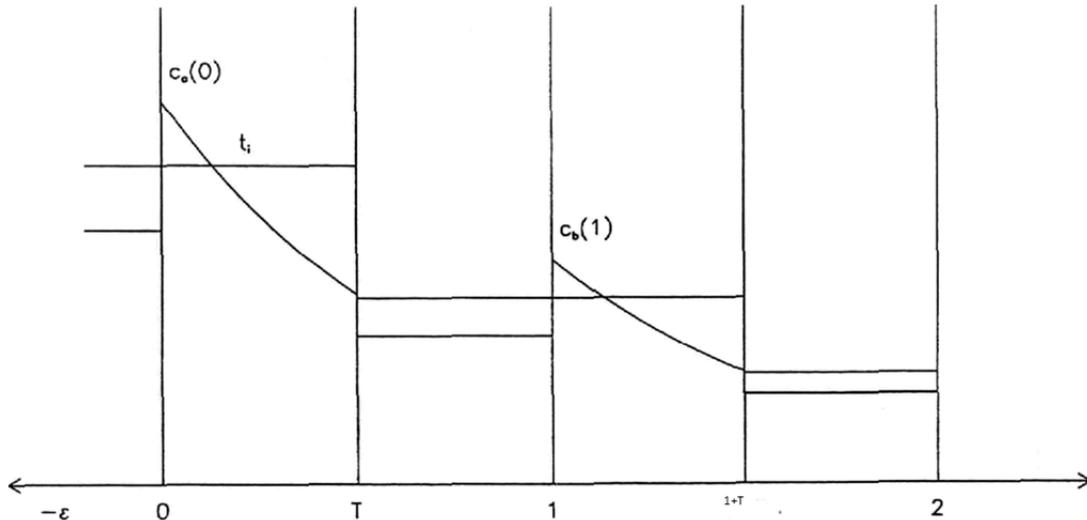


Fig. 1. Duopolistic competition over a cycle\*

Source: The authors.

\* At time  $-\epsilon$ , firm  $a$  has won the competition by reaching a lower average cost of production than  $b$ 's, as can be seen from the distance between the two segments which respectively represent constant unit costs of production. At time 0, firm  $a$  innovates and follows thereby a new technological pattern (the learning curve), whereas  $b$  is "locked-in" its old productive routine. Firm  $a$ 's new cost level — burdened by R&D expenses — is now higher than  $b$ 's. As time elapses, however, firm  $a$ , owing to "learning economies," is able to reduce unit costs: at  $t_i$ , they are level with  $b$ 's and beyond that point,  $a$  becomes more efficient. Meanwhile, firm  $b$  loses its market share to  $a$  but has nevertheless the opportunity to "watch and learn" the technical achievements of the adversary. Eventually, at time  $T$  — when the learning process of firm  $a$  has plateaued, as can be evinced from the flat portion of the learning curve from  $T$  onwards — firm  $b$  comes out with a cheaper copy of  $a$ 's original "combination:" the lower segment from  $T$  to 1 represents firm  $b$ 's cost of production for the copy. From  $T$  to 1,  $b$  is more competitive and therefore accumulates profit up to a point which will enable it to innovate. This is what takes place at time 1 when  $b$ 's unit costs make a discrete jump over  $a$ 's: we have thus obtained exactly the same scenario as the initial one (at time  $-\epsilon$ ), yet this time around with firm  $b$  as the innovator and firm  $a$  as the imitator. The technological strife continues until both firms complete — at time 2 — a full cycle, ending up precisely in the same situation as of time  $-\epsilon$ , with  $a$ 's costs lower than  $b$ 's; the only difference being the occurrence of two innovations, and the consequent imitations, which have significantly raised since the inception of the competition the overall productive efficiency of the industry (i.e., the average cost of production has been lowered for the industry as a whole).

course, one would like to know exactly why and when certain innovations take place. A model featuring just two firms offers limited options: it must be either firm  $a$  or firm  $b$ ; and their innovations — for the sake of abstraction — must be forthcoming at regular intervals. The record of the semiconductor industry, which we had in mind while building the model, suggests that this is not an extravagant hypothesis. At any rate, if we take "innovation" to mean an appreciable refinement of a revolutionary idea (and not the revolutionary idea itself: in other words, we are not contemplating a firm which invents fire one day and discovers the wheel the next), then, it is not too far-fetched to make use of this hypothesis considering that what we seek is a crude sketch of industrial dynamics under the pressure of technological change. When the innovation takes place,

*Assumption 5: The costs of the innovator increase discontinuously over those of the rival by a fixed, well-defined amount: the cost of innovation is*

reflected by the selling price of the new good. In other words, when first marketed, the innovative solution will be more expensive than the old "way-of-doing- things," on account, i.e., of conspicuous R&D costs.

The competition starts (see figure 2): for a period of time,  $b$  is more efficient than its rival, which has to bear substantial R&D outlays. But, as time progresses,  $a$ , which has managed to gain a foothold in a niche market, proceeds along its downward sloping learning-curve, rapidly overtaking its opponent.

*Assumption 6: After the production cost of the innovator has increased over that of  $b$  by a constant amount,  $a$  is capable, by leveraging the learning factor, to reduce the costs of production dramatically: it is now more competitive. While  $a$  innovates, firm  $b$  is not experiencing any learning economies: this fact translates into a flat cost curve (see figure 1). At time  $T$ , firm  $a$  dominates the market: consequently, its profits are higher*

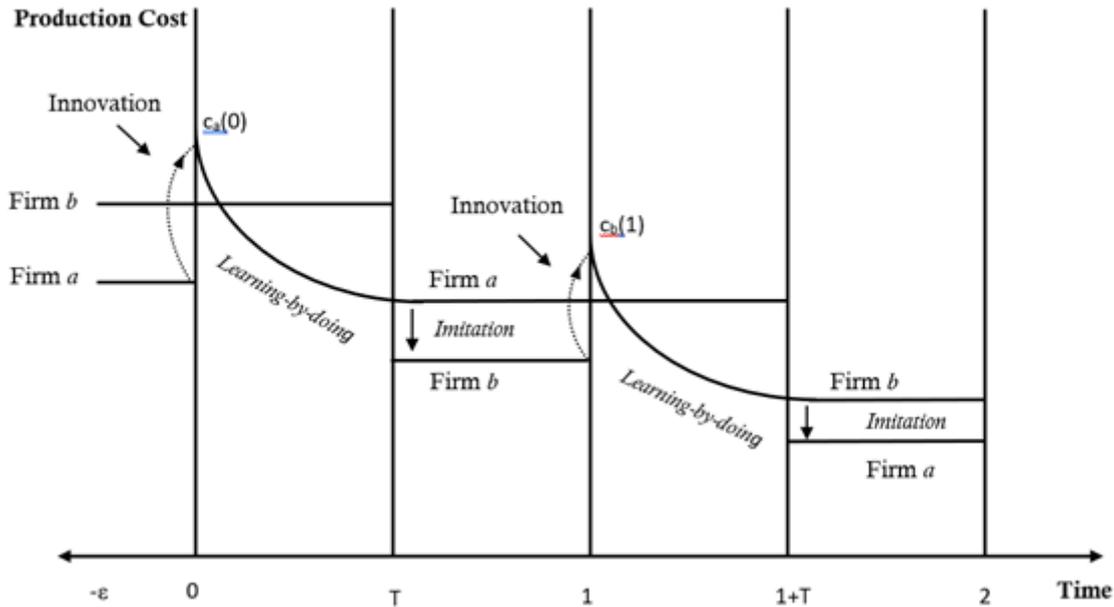


Fig. 2. The complete framework: duopolistic dynamics driven by innovation and imitation

Source: The authors.

than those of firm *b*. Nevertheless, the latter has had the opportunity, between time 0 to  $T-\varepsilon$ , to “watch-and-learn” and is now ready to release a perfect copy of the innovation at a lower price.

*Assumption 7:* When a firm innovates, the other *always* has the opportunity to imitate the original process (we have come to the second fundamental micro-routine, the other being the automatic investment in a novel paradigm) and thereafter offer the cheaper copy for sale. We make the additional hypothesis that  $T$  – the imitation lag – is a fixed fraction of the innovation period  $\mu$  (which in this parameterization will be conventionally set equal to 1, a “generic period”, so to speak) and that innovation will certainly occur at each  $\mu$ . Between  $T$  and 1, the learning curve has reached its region of constancy and the costs of the imitator are lower by a fixed ratio ( $B < 1$ ). If imitation costs are not too high, *b* will earn in the time interval from  $T$  to  $1-\varepsilon$  [that is,  $(\mu-\varepsilon)$ ] a volume of profits sufficient to innovate in turn at time 1.

*Assumption 8 (Restatement of Assumption 3):* When the imitator has accumulated a “critical mass” of profits, it is ready to innovate and thus switch role. This development is the joint outcome of Assumption 1 (the entrance of an imitator cannot be prevented), Assumption 3 (profits are invested in R&D) and Assumption 4 (investment in research *automatically* leads to innovation). Strategy-wise, the question at this juncture is: “why would a firm take the trouble to innovate if

it foresees that it will be imitated and eventually defeated?” The answer to this question draws on the previous assumptions: we contend that, in a modern credit economy, technology is not so keenly pursued for the enlightened sake of nurturing the soul of humanity by shortening the hours of daily toil, as it is to devise ingenious manufactures or systems with which corporations may wipe out the competition. Ultimately, it is a pecuniary battle that rival clans are waged, so no effort will be spared on their part to devise ever more creative ways of cutting down costs. Thus, according to Assumption 8, agents believe at all times that innovating is preferable to waiting and worth the risk. This deterministic and simplifying hypothesis does not imply that we are ignoring the cases of those firms that have retained for a long time, and profitably so, the role of imitators. These are important instances, yet we think that they do not represent a stable industrial configuration and that, in general, firms have systematically come to consider technology as (one of) the most trenchant weapons in the spasmodic quest for mono- or oligopolistic rent.

From time 1 (when the imitator turns into an innovator), the foregoing context repeats itself with *b* acting as the leader and *a* as the copycat follower. The former innovates, wins, is imitated and then defeated: another cycle is closed with firm *a* the winner, just as had happened at time  $-\varepsilon$ , but with a cost level lower than in the previous

cycle, for in the time interval  $[0, 2]$  two successive innovations occurred, bringing down the cost level “two notches.” As mentioned previously, the party innovating is the one with the higher profits at the end of two subperiods (viz., innovation by one firm followed by imitation by the other). The complete framework is depicted in figure 2.

*Assumption 9:* the instantaneous demand expressed in monetary terms  $Y$  is constant in time. Formally,

$$Y = c_a(t)x_a(t) + c_b(t)x_b(t). \quad (1)$$

In other words,  $Y$  is the total amount of money consumers decide to spend in each instant of time to satisfy their demand. It is constant by assumption. As mentioned above, inertial factors (such as brand loyalty, the sluggish diffusion of information, and long-term binding contracts) prevent consumers, as a *whole*, from buying the cheaper alternative forthwith, thereby eliminating the less efficient producer outright. The point here is to assess *how long* a price difference may persist between the two competing products. Obviously, a price differential between two (somehow imperfect) substitutes cannot obtain for an indefinitely long time: one of the products must eventually fall away.

The further implicit assumption — and it is a strong one — inserted at this juncture is that each phase of the cycle is short enough to allow such price differentials. In our setting, innovation is followed by imitation, which, in turn, is followed by another innovation, etc.: it is the buoyancy of aggressive entrepreneurship that warrants the existence and (temporary) persistence of price differentials. Now, since there are two available competing technologies on the market (good  $a$  and good  $b$ ),  $Y$  is accordingly divided into two components: the flow of sales of good  $a$  and the flow of sales of good  $b$ .

Indeed, the demand relates to *prices* rather than *costs*, but since we are assuming *constant markups*, the competition, is, in the final analysis, governed by the cost level of each competitor: consequently,  $Y$ , too, should be divided by the (constant) markup  $m$ , which, being inessential, shall be omitted. Once again, technological progress drives the competition, not the strategic variables: the technological struggle is the strategic variable *par excellence*, and all tactical considerations entailed by this

dynamic duopolistic duel have been subsumed, that is, “hidden,” in the notion of “learning-by-doing.” In general terms, the best a firm can do is to invest, promote research and hope to come out with an innovative combination that will allow it to survive; if it has not been able to innovate, second best would be to “see” what others have done, learn, imitate — which also spells survival — and, later, try to innovate.

Again, the technological schema we are devising is an extreme simplification of the industrial realm. Notwithstanding the model’s terse frame-up, condensing managerial and engineering routines into simple concepts, such as learning and the merit of imitating & borrowing (which translates into a simple per cent discount of the innovator’s price), one may still derive a satisfactory description of an important dimension of modern industrial dynamics. Thereby the human factor and the modelling challenges associated with it have all been bypassed; what remains is a macrodynamic force — i.e., the thrust of technological invention — which is governed by laws of its own that are different from those associated with the microeconomic nature of industrial routines. The model says almost nothing of these microeconomic routines: they are given, and the learning curve represents their cumulated impact; firms leverage these curves to compete on the market; and the global outcome of this prolonged technological strife is the macro-economic development of the industry as a whole. We will draw the wider picture in the last section of the paper. We now turn to the description of the model’s dynamics.

From Dosi’s model, we retain: 1) the constant elasticity demand function:

$$x_t = A(mc_t)^{-\gamma}, \quad (2)$$

where  $\gamma$  is the elasticity; and, in a slightly modified form, 2) the notion of “learning-by-doing” — the larger the production volume, the lower the cost:

$$c_a(t) = c_a(0) \left( \frac{W}{W + \int_0^t x_a dt'} \right)^{\beta}, \quad (3)$$

where

$$X(t) = \int_0^t x_t dt' \quad (4)$$

is the cumulated production;  $x_t$  is the flow of demand: the latter can be interpreted as the *selling intensity* of the good demanded (the concept is akin to that of speed:  $X(t)$  would then correspond to the notion of *distance*). The parameter  $W$  corresponds to  $X(0)$ : i.e., the market share of the innovator at time 0. It is now misleading to think that there is such a thing as an *initial* market share when the new product first reaches the market. We thus prefer to call this quantity  $W$  and consider it a parameter which, together with  $\beta$ , affects the slope of the learning curve. Alternatively, it can be thought of as that cumulative market share necessary, e.g., when  $\beta = 1$ , to cut the initial cost level in half. By incrementing production, firms have the opportunity to develop the original idea, improve productive techniques, and thereafter abate production costs. In Eq. (3),  $\beta$  is the learning coefficient (the scale of this number will be determined by the chosen parameterization).

*Assumption 10:* A fundamental aspect of the model's dynamics is the apportionment of demand between the two firms. As set down earlier, neither  $a$  nor  $b$  can supply the whole market alone. *There is a single demand function (one need) and two producers (two goods): our solution is to have the producer of the new good (the innovator at time 0 and the imitator at time  $T$ ) face demand alone, whereas the rival picks up the residual demand, in keeping with the constraint of Eq. (1).*

In other words, in order to determine the market share for each firm, we first use the demand function [Eq. (2)] to "measure" the reaction of consumers to the latest "arrival" on the market and allot the remainder to the incumbent. *Novelty*, not *competitiveness*, determines who faces demand alone. This unorthodox treatment of demand allows us to bypass the difficulty posed by the need to have, at all times, two market shares, two prices (costs), and one demand function.

Once the flow of demand for the new good is derived from Eq. (2) — given the cost levels of  $a$  and  $b$  — the flow of demand for the rival is obtained from Eq. (1), which is the expression for the constant outlay  $Y$  paid by consumers for a given service. By following this method, one can account for the existence of niche markets, such as emerge, e.g., around novel "boutique" items. Despite their expensiveness, they attract a following among more daring, as well as more

affluent customers, who can cavalierly afford to "defy" traditional, less efficient, and less sophisticated devices performing the same tasks for a much lower price-tag. Given the potentialities and peculiarities of the consumer habitat, new, exotic products, once they have "landed" on this humus, may very well diffuse and eventually become the new standard.

It is important to bear in mind that in this setting, firms do not set prices as if in some decisional game: instead, they continually refer to their average cost curve, which is driven by the progress of technical learning; they record the level of efficiency achieved and channel that information (plus the mark-up) into the retailing price. This is how prices are determined, and Eq. (2) informs the innovator of his product's impact, while the share apportioned to the other producer is obtained by subtracting from the total demand whatever amount of sales has been grossed by the newly-launched innovation. The model can be interchangeably applied to four possible scenarios:

The endless battle in which the same two firms,  $a$  and  $b$ , periodically swap roles (of innovator and imitator): the discussion following the description of the model will be devoted to finding the parameters that warrant this periodical "innovative-attack-and-imitative-reprisal" scenario.

Monopoly under constant attack: the innovator, being more profitable than the imitator in both phases (the innovation phase — from 0 to  $T$  — and the imitation phase — from  $T$  to 1) succeeds in innovating twice in a row (at 0 and at 1) and thus eliminate the opponent. The latter would be readily replaced by a new entrant eager to challenge the triumphant pioneer at time  $T + 1$ , and, yet, fated to losing like its predecessor if the parameters characterizing the technological panoply of the innovator and of all other foreseeable imitators<sup>1</sup> do not change.

3) "Sacrifice and the blind cycle of innovation": in this scenario, the innovator suffers the sacrificial fate of the pioneering inventor who ends up immolating himself on the altar of astronomical R&D expenses while a gaggle of industrial plagiarizers ("the imitating collective") steal his idea and successfully recycle it "on the cheap." This is the cautionary apothegm of the "inventor" who is

<sup>1</sup> Viz., steepness of the learning curve, long imitation time lag, prohibitive imitation costs, manageable R&D costs.

fated to wearing a crown of thorns (*“La couronne du novateur, est comme celle du Christ, une couronne d’épines,”* Geoffroy de Saint-Hilaire). The story continues with the best-selling imitator, who, after winning the first two rounds (by beating the innovator both in the innovation phase and in the imitation phase), is himself irresistibly and tragically seduced by the siren of creative entrepreneurship. Caught in the trappings of the technological mania, he thus profligately innovates only to be scavenged by another cohort of resourceful imitators, suffering thereby the same commercial death as his predecessor’s.

*Ex-Aequo*: It may happen that after a generic innovation/imitation period, the two competitors have earned a comparable amount of profits; in this case, each faces the same probability of innovating: competition proceeds according to the same pattern but in a stochastic fashion. In any event, the long-run dynamics of costs will not differ from the deterministic case, in which firm *a* and firm *b* regularly trade places with each other in leading and following at the end of each period. The discussion of the model’s dynamics will ignore this fourth scenario.

It is important to stress once more that all four scenarios feature the interaction of two firms, so that the elimination of a contender does not imply the monopolistic supremacy of the winner: the loser is immediately replaced.

#### 4.1. The situation at the end of the previous cycle

Let us recall that a cycle comprises four phases. In the general case, which starts at time  $t = 0$ , *a* innovates in the first phase, *b* imitates in the second and, provided *b*’s profits exceed those of *a*, it goes on to innovate in the third and is imitated in turn by *a* in the fourth. Such is the snapshot of the game at time  $-\varepsilon$  (just before *a* innovates): in the last phase of the previous cycle, *a* had become the imitator ( $c_a < c_b$ ): assuming *a* grossed a larger sales volume than *b*’s, it is then ready to innovate. The analysis begins here.

At time  $-\varepsilon$ , we can normalize the system by setting conventionally the values of 1) the cost level of *a*, 2) the cost level of *b*, lower than that of *a* by a fixed percentage, 3) the intensity of demand for *a* and 4) the intensity of demand for *b*:

$$c_b = 1 \quad x_b = 1$$

$$c_a = B \quad x_a = r, \text{ where } B < 1.$$

This implies that

$$Y = 1 + rB. \tag{5}$$

in Eq. (5),  $rB$  is, according to Eq. (1),  $c_a(-\varepsilon)x_a(-\varepsilon)$ , that is, the intensity of total sales netted by *a*, the forthcoming innovator.

#### 4.2. The competition in the first phase

The first phase unfolds from 0 to  $T$ . The innovation triggers a new learning curve whose initial

value increases discontinuously by  $\frac{1}{B}$  over the cost level of the adversary (set equal to 1). One has then

$$c_a(0) = c_a = \frac{1}{B}.$$

We now come to one of the centrepieces of the model’s dynamics. The intensity of demand (for the firm *a*), at time 0 —i.e., when the innovative product is first “dropped” on the market— is

$$x_a(0) = x_a = r(B^2)^Y.$$

This is the ratio of the flux of demand, Eq. (2), at time 0 to the instantaneous demand at time  $-\varepsilon$ : to calculate the flow of demand as a function of the average cost of production for any firm, we always compute it at two different (critical) times and take the ratio. It amounts to the normalization of  $x_t$  with respect to itself, evaluated at the *preceding stage*; i.e.,  $x$  and its associated cost level are considered at two consecutive periods. By taking the ratio of two consecutive values of  $x$ , the corresponding (inverse) relationship between the cost levels will tell whether the quantity demanded has increased or not: if  $c$  (in this time interval) decreases,  $x$  increases.

In general, this method warrants that the flow of demand for a firm will not increase if its cost level does not change between two successive phases. *Therefore, we never use Eq. (2) as a function of the absolute cost level;*<sup>2</sup> instead, our purpose

<sup>2</sup> Obviously, values of  $c_t$  close to zero, which make  $x_t$  tend to infinity would render the model totally inconsistent. We thus resort to the normalization of the flux of demand.

is to calculate the intensity of demand for two consecutive periods so as to express the *relative* increase of  $x_t$  (relative, i.e., to what it was in the previous phase, given the evolution of the cost structure).<sup>3</sup>

The learning curve is:

$$c_a(t) = \frac{1}{B} \left( \frac{W}{X_a(t) + W} \right)^\beta. \quad (6)$$

By combining the demand schedule with the learning curve, we may write

$$x_a(t) = rB^{2\gamma} \left( \frac{X_a(t) + W}{W} \right)^{\beta\gamma}.$$

By exploiting the relationship between the flux  $x_t$ , and the cumulative production, [Eq. (4)], one obtains the following differential equation:

$$\frac{dX_a(t)}{dt} = rB^{2\gamma} \left( \frac{X_a(t) + W}{W} \right)^{\beta\gamma}.$$

$$\text{If } \rho = \frac{X(t)}{W}, \text{ then } d\rho = \frac{dW(t)}{W}.$$

We thus have

$$\frac{d\rho}{dt} = \frac{1}{W} \frac{dX_a(t)}{dt} = \frac{r}{W} \left( \frac{X_a(t) + W}{W} \right)^{\beta\gamma} B^{2\gamma},$$

$$\frac{d\rho}{dt} = \frac{r}{W} B^{2\gamma} (1 + \rho)^{\beta\gamma}.$$

By separating the variables, the first-order differential equation is easily solved:

$$(1 + \rho)^{-\beta\gamma} d\rho = dt \frac{r}{W} B^{2\gamma},$$

$$\frac{(1 + \rho)^{1 - \beta\gamma}}{1 - \beta\gamma} = t \frac{x_a(-\varepsilon)}{W} B^{2\gamma} + C,$$

and by setting the initial condition  $\rho(0) = 0$ , one has

$$(1 + \rho)^{1 - \beta\gamma} = t \frac{x_a(-\varepsilon)}{W} (1 - \beta\gamma) B^{2\gamma} + 1.$$

Using logarithms,

$$(1 - \beta\gamma) \ln(1 + \rho) = \ln \left[ 1 + t \frac{x_a(-\varepsilon)}{W} (1 - \beta\gamma) B^{2\gamma} \right].$$

$$(1 + \rho) = 1 + t \frac{x_a(-\varepsilon)}{W} = \left[ 1 + t \frac{x_a(-\varepsilon)}{W} (1 - \beta\gamma) B^{2\gamma} \right]^{\frac{1}{1 - \beta\gamma}}.$$

For  $1 - \beta\gamma \ll 1$ , the previous expression may

be reasonably simplified by setting  $\frac{1}{1 - \beta\gamma} = N$ ,

and using the well-known formula

$$\lim_{N \rightarrow \infty} \left( 1 + \frac{t\alpha}{N} \right)^N = e^{t\alpha}.$$

Having set  $\alpha = \frac{r}{N} B^{2\gamma}$ , one easily derives the

following exponential trend:

$$X_a(t) = W (e^{t\alpha} - 1).$$

This relationship expresses effectively the “penetration process” of the new product whose market share, starting from a niche position, increases progressively, indeed exponentially. This relationship may be otherwise stated in terms of flux (i.e., by taking the derivative):

$$x_a(t) = rB^{2\gamma} \exp \frac{rB^{2\gamma}}{W} t.$$

To sum up: by combining the constant elasticity demand function, which measures the market reaction to the new good, with the learning-by-doing expression (the more a firm produces, the more competitive it becomes), we derive the temporal expansion path of the innovator’s market share: the demand function, to repeat, was here used only to determine how the “selling intensity”  $x_t$  (for the firm  $a$ ) varied as the cost of production was lowered; the share of  $b$  is obtained as the difference between total instantaneous expenditures  $Y$  and the flux of demand for  $a$  yielded by the foregoing derivation. One may then find the functional nature of the learning curve by substituting in it the preceding expression:

$$c_a(t) = \frac{1}{B} \exp \left( - \frac{1}{W} rB^{2\gamma} t \right). \quad (7)$$

<sup>3</sup> One of the implications of such a particular theory of demand is that  $A$  —the coefficient accounting for the size of the market in Dosi’s model— no longer plays this role; here, it is used as a proportional constant whose value, given the dynamics of  $x_t$ , and  $c_t$ , may vary from one phase to the next. Yet, this point is of no significance for  $A$  always cancels out in the derivation of the market share, as shown above.

As pointed out earlier with Eq. (1), the intensity of demand for firm  $b$  at time  $T$  equals the total monetary demand  $Y$ , minus the flux of demand for the firm  $a$ , calculated at the same date. Formally,

$$x_b(T) = 1 + rB - rB^{2\gamma-1} \exp\left(\frac{rB^{2\gamma}}{W}\left(1 - \frac{1}{\gamma}\right)T\right),$$

which, if one sets

$$\lambda = \exp\left(\frac{rB^{2\gamma}}{W}\left(1 - \frac{1}{\gamma}\right)T\right), \quad (8)$$

$$x_b(T) = 1 + rB - rB^{2\gamma-1} \lambda.$$

By recalling that  $c_b = 1$  and that the markup  $m$  is constant, one may now determine the profits of  $a$  and those of  $b$  over the first phase of the “chase.” The formula for the firm  $a$  is:

$$\Pi_a^{(I)} = (m-1) \int_0^T x_{a(t)} c_a(t) dt.$$

Once more, as for the equation of  $Y$  [Eq. (1)], we shall omit the (irrelevant) “contribution” —  $(m - 1)$  — of the markup.

$$\begin{aligned} \Pi_a^{(I)} &= rB^{2\gamma-1} \int_0^T \exp\left(\frac{rB^{2\gamma}}{W}\left(1 - \frac{1}{\gamma}\right)t\right) dt = \\ &= rB^{2\gamma-1} \frac{W}{rB^{2\gamma-1}\left(1 - \frac{1}{\gamma}\right)} \left[ \exp\left(\frac{rB^{2\gamma}}{W}\left(1 - \frac{1}{\gamma}\right)T\right) - 1 \right] = \\ &= rB^{2\gamma-1} T \left( \frac{\lambda - 1}{\ln \lambda} \right). \end{aligned}$$

The profits earned by  $b$  are

$$\Pi_b^{(I)} = Y - \Pi_a^{(I)}.$$

If we indicate with  $\delta_{ab}^{(I)}$  the difference between these two quantities, we then have

$$\delta_{ab}^{(I)} = \Pi_a^{(I)} - \Pi_b^{(I)} = \left[ 2rB^{2\gamma-1} T \left( \frac{\lambda - 1}{\ln \lambda} \right) - (1 + rB) \right] T.$$

For this scheme to be coherent, it is reasonable to assume that this difference is *positive* in the first phase. However, the comparison and the

related discussion are postponed to the end of the second phase, when all the elements necessary to determine the critical values that ensure the periodical inversion of roles are available.

### 4.3. The Second Period

From time  $T$ , a cheaper copy of the innovative product conceived and introduced by  $a$  at time 0 is ready to be sold by  $b$ . During the interval from  $T$  to 1,  $b$  is the dominant firm. By hypothesis, the

efficiency level of  $b$  is about  $\left(\frac{1}{B} - 1\right)\%$  (the same percentage assumed in the first phase) higher than the maximum learning level achieved by the other producer, who in the meantime has reached the constancy region of his cost schedule. Formally

$$c_a = c_a^* = \frac{1}{B} \exp\left(-\frac{rB^{2\gamma}}{W} \frac{T}{\gamma}\right),$$

$$c_b = Bc_a^* = \exp\left(-\frac{rB^{2\gamma}}{W} \frac{T}{\gamma}\right).$$

As for the innovator, we now calculate the flux of demand for the imitator at time  $T$ , when the copy is introduced in the market. The demand function, Eq. (2), applies to the producer supplying the *new* product: in this phase, the new product is firm  $b$ 's copy (of  $a$ 's innovative solution). For the imitator (firm  $b$ ), we compute the intensity of demand at  $T - \varepsilon$  (at which the corresponding cost level is 1) and  $T$ , and then take the ratio (firm  $a$ 's flow of demand is determined as the residual):

$$x_b = x_b^* \left(\frac{1}{c_b}\right)^\gamma = x_b^* \exp\left(\frac{rB^{2\gamma}}{W} T\right).$$

The instantaneous revenue for firm  $b$  is then

$$x_b c_b = x_b^* \exp\left(\frac{rB^{2\gamma}}{W}\left(1 - \frac{1}{\gamma}\right)T\right).$$

By recalling the substitution (8),

$$x_b c_b = \lambda \left(1 + rB - rB^{2\gamma-1} \lambda\right). \quad (9)$$

Therefore, the profits for the two players are

$$\Pi_b^{(II)} = (1 - T) \lambda \left(1 + rB - rB^{2\gamma-1} \lambda\right)$$

and

$$\Pi_a^{(II)} = (1-T) \left[ (1+rB)(1-\lambda) + rB^{2\gamma-1}\lambda^2 \right]. \quad (10)$$

The difference is given by

$$\delta_{ab}^{(II)} = (1-T) \left[ (1+rB)(1-\lambda) + 2rB^{2\gamma-1}\lambda^2 \right].$$

#### 4.4. Discussion

Through a convenient parameterization of the model, we should be able to determine those critical values for which the interchange of roles is guaranteed to occur *indefinitely* (first scenario). Indeed, because the last two phases of a cycle are the specular image of the first two, the key parameters that allow the competition to unfold “endlessly” assume a general character.

The process comes to an end when a good’s production costs, as a result of the duopoly’s competitive pressure, drop to a level so low as to force the industry to discard it entirely and thereupon invest novel resources in that sort of research, so typical of modern times, devoted to shaping consumers’ tastes by means of “new combinations.” This development had also been contemplated by Alfred Marshall [3], who, very much in the spirit of this model’s construction, observed in his *Principles* that “this process may go on as long as the risks which are inseparable from the business do not cause him [the producer] exceptional losses; and if it could endure for a hundred years, he and one or two others like him would divide between them the whole of the branch of industry in which he is engaged. The large scale of their production would put great economies within their reach, and provided they competed to their utmost with one another, the public would derive the chief benefit of these economies, and the price of the commodity would fall very low.”

Let us consider the following differences:

$$\delta_{ab}^{(I)} = \left[ 2rB^{2\gamma-1}T \left( \frac{\lambda-1}{\ln \lambda} \right) - (1+rB) \right] T$$

and

$$\delta_{ab}^{(II)} = (1-T) \left[ (1+rB)(1-2\lambda) + 2rB^{2\gamma-1}\lambda^2 \right].$$

We now have to determine for which values of  $\lambda$ ; the first expression is *positive* — higher profits for *a* in the first phase — and the second is *negative* — higher profits for firm *b*, which will

leverage them to innovate in turn. Why does this comparison is made to hinge on the variable  $\lambda$ ? Let us recall that

$$\lambda = \exp \frac{rB^{2\gamma}}{W} \left( 1 - \frac{1}{\gamma} \right) T.$$

Now, if arbitrary values are chosen for  $r$ ,  $B$  and  $\gamma$  — all of which play an important role in both profit differentials —  $\delta_{ab}^{(I)}$  and  $\delta_{ab}^{(II)}$  may be expressed as a function of this one variable alone,  $\lambda$ . The fact that all three mentioned parameters are in the expression for  $\lambda$  does not lead to any complication since the latter variable depends on four parameters,  $\lambda = \lambda(B, T, W)$ ; and this degree of freedom allows us to derive coherently the relationship between the two  $\delta$ ’s and  $\lambda$ . We further assume that:

(i) the instantaneous revenue of *a* at time  $-\varepsilon$  and that of *b* stand in inverse proportion to the ratio of their associated costs, that is

$$\frac{rB}{1} = rB = \frac{1}{B};$$

(ii) the discontinuous increase (spurred by innovation) or decrease (caused by imitation) over the rival’s cost-level is arbitrarily and unvaryingly set at 20 per cent, i.e.,  $B = 0.8$ ;

(iii)  $\gamma = 2$ . For values of  $\gamma$  close to 1 — this is one of the most fascinating implications of the model —  $\delta_{ab}^{(II)}$  will always be greater than zero;<sup>4</sup> this means that the “chase” may continue indefinitely *provided the demand for the good is elastic*;

<sup>4</sup> The case of an elasticity equal to 1 has been ruled out because it makes the second  $\delta$  ( $\delta_{ab}^{(II)}$  i.e., the difference between the profits of firm *a* and firm *b* in the second phase) always positive, which is to say that firm *a* is more profitable than *b* even in the second phase: the imitator never stands a chance of making it, regardless of the sign of  $\delta_{ab}^{(I)}$ . For  $\gamma = 1$  (i.e., with  $\delta_{ab}^{(II)}$  always positive), there is also a range of values of  $\lambda$  for which  $\delta_{ab}^{(I)}$  is negative: this would be the anomalous case in which the innovator is (financially) beaten in the pioneering phase yet “manages” to win in the imitation phase: as this was not one of the scenarios previously contemplated, we chose to ignore it. So we fixed our choice of  $\gamma = 2$ , by which one may derive the critical values of the parameters characterizing the first 3 conventional settings listed above: chiefly, 1) the constant inversion of roles; 2) the continued dominance of an innovator over a cohort of imitators; or 3) the ephemeral victory of an imitator, who irresistibly morphs into a pioneer foredoomed to (financial) failure. In sum, the model’s implicit suggestion that the demand ought to elastic could be taken to mean that such elasticity is indeed one of the fundamental preconditions for buoyant, incessant (technological) competition: what are here bought and sold are thus leisure goods, i.e., neither necessities nor luxuries.

(iv) to simplify the algebra,  $T$  is set equal to  $\frac{1}{2}$ , viz., it takes twice as long to innovate as to imitate.<sup>5</sup> We now have

$$\delta_{ab}^{(I)} = \frac{1}{2} \left[ 2B \left( \frac{\lambda - 1}{\ln \lambda} \right) - \left( 1 + \frac{1}{B} \right) \right]$$

$$= \frac{1}{2} \left[ 1.6 \left( \frac{\lambda - 1}{\ln \lambda} \right) - 2.25 \right].$$

For the second period,

$$\delta_{ab}^{(II)} = \frac{1}{2} \left[ (1 + rB)(1 - 2\lambda) + 2B\lambda^2 \right] =$$

$$\delta_{ab}^{(II)} = \frac{1}{2} \left[ 2.25(1 - 2\lambda) + 1.6\lambda^2 \right].$$

We are now looking for the *critical* range of  $\lambda$  values which make the “chase” possible. A simple calculation allows us to draw up the following data set:

$\lambda$	$\frac{\delta_{ab}^{(I)}}{T}$	$\frac{\delta_{ab}^{(II)}}{1 - T}$
1	-0.65	-0.65
1.4	-0.34	-0.91
1.8	-0.07	-0.66
2.0	0.6	-0.35
2.2	0.18	0.09
2.6	0.42	1.36
3.0	0.66	3.15

from which it is easy to see that the sought interval for  $\lambda$ —yielding  $\delta_{ab}^{(I)}$  positive and  $\delta_{ab}^{(II)}$  negative—is very narrow:

$$1.92 > \lambda > 2.16.^6$$

<sup>5</sup> Referring to figures 1 and 2 above, this means that at time  $T$ , now set to one-half of the innovation period ( $t = 1$ ), as  $a$ 's learning economies plateau for the remainder of the innovation period,  $b$ , through imitation, discontinuously reduces the price and goes on to win the competition for the rest of the period, i.e., until time  $t = 1$ .

<sup>6</sup> Moreover, it is worth noticing that the postulated relationship between revenues and costs [assumption (i) of the parameterization, according to which, the instantaneous revenue of  $a$  and that of  $b$  are in the inverse ratio as their related costs] still holds at the end of the innovation cycle, i.e., when it is  $b$ 's turn to create and market a “new combination.” Although it surely is a simplifying assumption to take  $B$  as a constant throughout the successive phases of the cycle [assumption (ii):  $B = 0.8$ ], such a choice nevertheless warrants that the competitive configuration (the specific relationship between costs and

This result may be illustrated graphically (see figure 3) by plotting the expressions for

$$\delta_{ab}^{(I)} = TF^{(I)}(\lambda)$$

and of

$$\delta_{ab}^{(II)} = (1 - T)F^{(II)}(\lambda).$$

In sum, for values of  $\lambda$  greater than or equal to 2.16, the two  $\delta$ 's are always positive, which means that the innovator is unbeatable, even when challenged by a cheaper copy of his original product; this is the second scenario of the main four contemplated previously. For values of  $\lambda$  less than or equal to 1.92 instead (both  $\delta$ 's are negative), the innovator is destined to succumb, prohibitive R&D costs being the harbinger of bankruptcy and consequent “expulsion” from the marketplace: This is the melodramatic scenario (the third) featuring the misadventure(s) of the martyred pioneer, which Schumpeter envisaged in his *Theory of Economic Development*.

It is worth noticing that  $W$ ,<sup>7</sup> which, along with  $\beta$ , determines the shape of the learning curve, is the parameter subject to variation in this case ( $T, B$

revenues) prevailing at time  $-\varepsilon$  is reproduced at time  $1 - \varepsilon$ , with  $b$  as the innovator. This may be verified by taking the ratio of both firms' instantaneous revenues at the end of the second period (when the copy is available on the market for the first

time), substituting  $\frac{1}{B}$  for  $rB$  [assumption (i)] and setting it equal to the inverse ratio of their respective costs (for  $\gamma = 2$ ):

$$\frac{\lambda \left( 1 + \frac{1}{B} - \lambda B \right)}{\left( 1 + \frac{1}{B} \right) (1 - \lambda) + \lambda^2 B} = \frac{1}{B}.$$

By rearranging terms in the above expressions, one obtains the following quadratic expression in  $\lambda$ :

$$B(B + 1)\lambda^2 - \left( 2 + \frac{1}{B} + B \right)\lambda + \left( 1 + \frac{1}{B} \right) = 0,$$

which for  $B = 0.8$ , yields  $\lambda \cong 2$ . We may thus assert that innovation cycles are stationary in the parameter values chosen. In other words, the value of  $\lambda$  which preserves the inverse relationship between revenues and costs at the end of the first innovation cycle falls precisely within the critical interval determining the continual inversion of roles. Such a result is indeed an interesting proof of the robustness and consistency of the model.

<sup>7</sup> As was previously discussed, the parameter  $W$  corresponds to  $X(0)$ , i.e., the market share of the innovator at time 0. Since, however, there is no such a thing as an *initial* market share when the new product first reaches the market, it is preferable to regard this quantity as a crucial parameter that affects the slope of the learning curve.

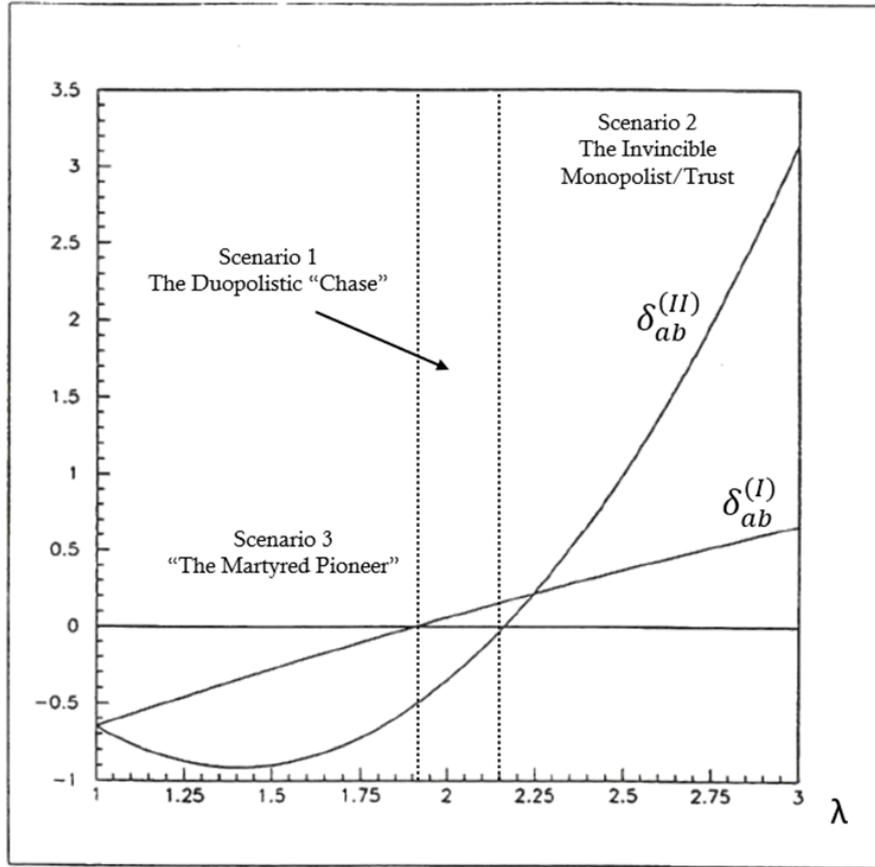


Fig. 3. The determination of the critical range for the interchange of roles

Source: The authors.

and  $\gamma$  have been fixed): the steeper the learning curve, the more daunting it is for the imitator to penetrate the market; growing values of  $W$  reduce the slope of the learning curve (as can be seen by taking the derivative of the learning curve, Eq. (6), with respect to  $X$ , the cumulative production). In fact,  $\lambda$  is a decreasing function of  $W$ , which implies, again, that the steeper the learning curve, the larger is  $\lambda$ ; and this confirms the contention that high values of  $\lambda$  make the innovator unbeatable.

Alternatively, we could have fixed  $W$  and let  $T$  (the time lag protecting the innovator) vary: obviously, the shorter (longer), the lag, the greater (less) the advantage of the imitator over the incumbent.

Given the critical range for  $\lambda$  and  $T (= 0.5)$  and

keeping in mind that  $r = \frac{1}{B^2}$  (sub-hypothesis

(i)), we may now identify the role of  $W$ . One has

$$\lambda = \exp \frac{rB^{2\gamma}}{W} \left(1 - \frac{1}{\gamma}\right) T = \exp \frac{B^2}{2W} T \cong 2,$$

from which

$$\frac{0.16}{W} \cong \ln 2 \rightarrow W = 0.23.$$

It may also be of interest to define  $t_i$  (see figure 1): starting at time 0, this is the time lapse required by the innovator to reach an efficiency level comparable to that of his competitor  $b$ , which coincidence occurs when the learning curve, Eq. (8), intersects  $c_b = 1$ . One may write

$$c_a^{(I)}(t_i) = c_b^{(I)}$$

$$\exp \frac{t_i B^2}{2W} = B \rightarrow t_i = -\frac{2W}{B^2} \ln B = 0.16.$$

Therefore, for this configuration to be stable (scenario 1), the intersection must take place at a time which is about a third of the innovation period  $\mu [0, T]$ .

#### 4.5. The Dynamics of Long-Term Costs

We assume that the threshold  $\lambda \cong 2$  is satisfied in each cycle so that  $a$  and  $b$  regularly take turns at the helm of the industry, shifting in-

crementally, and seriatim, the technological frontier.

If, as we have assumed, the innovator's cost regularly decreases with respect to the rival's cost by a fixed amount of 20 per cent, by indicating with 0, 1, 2,... the chronological occurrence of innovative breakthroughs, the sequence of initial cost levels registered at each innovation spike may be written as follows:

$$\text{Time 0} \rightarrow c_a(0) = \frac{c_b(-\varepsilon)}{B} = \frac{1}{B};$$

$$\text{Time 1} \rightarrow c_b(1) = \frac{c_a(1-\varepsilon)}{B} = \frac{c_a^*}{B};$$

$$\text{Time 2} \rightarrow c_a(2) = \frac{c_b(2-\varepsilon)}{B};$$

$$\text{Time 3} \rightarrow c_b(3) = \frac{c_a(3-\varepsilon)}{B};$$

$$\text{and soon } c_a(T)c_a(1-\varepsilon).$$

The relationship between  $c_a(i)$  (or  $c_b(i)$ ) and the successive value is indeed the learning-by-doing cure; in other words, those two values are respectively the initial point ( $c_a(0)$  at time 0) and the point of maximum learning ( $c_a(1-\varepsilon) = c_a^*$ ) along the same learning curve.

It is now possible to derive the long-run unit cost curve endogenously for the industry as a whole by comparing the two successive cost levels (at time 1 and 0) associated with the two innovations that have taken place during one cycle and then solving a simple recursive relationship (in other words, we are connecting the initial points of the several learning curves which punctuate the competitive path of this hypothetical industry):

$$\frac{c_b(1)}{c_a(0)} = c_a^* = \frac{1}{B\lambda}, \text{ since, for } = 2,$$

$$c_a^* = \frac{1}{B} \exp\left(-\frac{B^2}{2W}T\right) \text{ and}$$

$$\lambda = \exp\left(\frac{B^2}{2W}T\right).$$

The solution of the recursive equation is thus

$$c_i = c_0 \left(\frac{1}{2B}\right)^i = c_0 e^{i \ln\left(\frac{1}{2B}\right)}.$$

If one designates with

$$\omega = \ln\left(\frac{1}{2B}\right),$$

the parameterization yields the following result:  $\omega = 0.47$ ; and since  $i$  is the periods' index, in other words, the time variable, we finally obtain a unit cost function which, incidentally, happens to coincide with that postulated by Iwai in two important papers<sup>8</sup> on the relationship between industrial structure and technological innovation, i.e.,

$$c(t) = c(0)e^{-\omega t}, \quad (11)$$

where  $\omega$  – which corresponds to  $\lambda$  in Iwai's Ansatz – is a normalized parameter for we have set the innovation lag  $\mu$  equal to 1 (see Assumption 7 above).

To recapitulate, this last equation represents the long-run average cost curve for the industry as a whole: it is the aggregate outcome of technological strife, fought with innovation-driven onslaughts parried by imitative counterblows. It summarizes a collective process of productive efficiency triggered by the pursuit of profit within the arena of industrial competition.

#### 4.6. Summary & Conclusions

In sum, the model suggests inherently that the ingredients warranting buoying competition

<sup>8</sup> The statistical datum reported by Iwai [4, 5] shows how remote the industrial reality has always been from the neoclassical equilibrium picture, according to which, firms characterized by different levels of productivity cannot coexist in the same industry, Graphically, Iwai plots productivity as a function of the number of firms: the relationship assumes the contour of a bell-shaped curve, which is remarkably well approximated by the derivative of a logistic curve – the centerpiece of the model. From the moment a new productive technology is first introduced, this curve describes its adoption path by  $n$  firms. In order to obtain a long-run function which unconstrains the relationship between efficiency and the firms' adoption path from the specific timeline of the innovation shifts, Iwai introduces, without accounting for its functional nature, an exponentially decreasing unit cost curve resulting from the continuous improvements brought about by technological development. This allows him to convert the innovation dates to their respective cost levels, i.e., to free the analysis from any further temporal consideration and finally to interpret the relationship thus obtained as a long run industrial configuration. In Iwai's model, the exponential law which portrays the dynamic pattern of costs under the pressure of ingeniousness, is the following:  $C(t) = e^{-\lambda t}$ , which conveys in simple fashion that creative stimulus tends forces down production costs continuously.

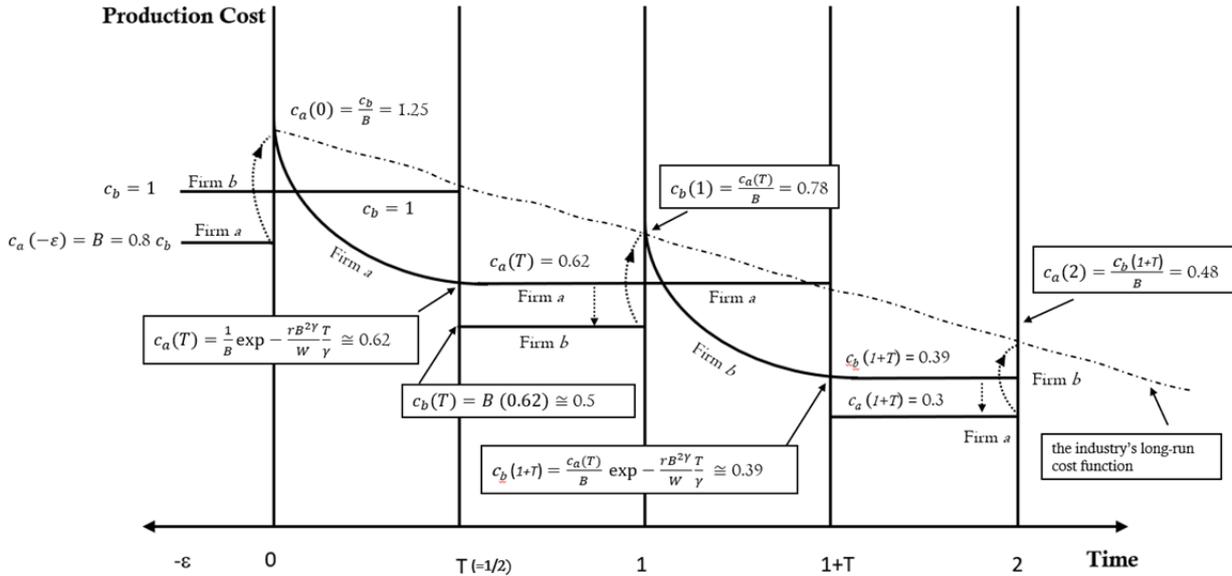


Fig. 4. The long-term derivation of the industry's cost level.\*

Source: The authors.

\* As stated in section 4.2, we do not refer to the absolute level of the intensity of demand,  $x_t$ , but, rather, normalize this variable (by taking the ratio of its value at a given time to that prevailing in the previous period) with a view to considering exclusively *relative variations*: in this sense, the (slope of) learning curve is not a function of  $r$  (i.e., the intensity of demand achieved by the imitator prior to innovating). The normalization of  $x_a$  ( $r$  at  $-\epsilon$ , and of  $x_b$  at  $1-\epsilon$ , etc.) is reset with every innovation to the template of initial values chosen for time  $-\epsilon$ . Thus, while maintaining an identical profile, this same

learning curve, as shown in figures 1, 2, and especially 4, is merely “pushed down” by ca.  $\frac{1}{B\lambda}$  with every innovating click. As far as the model's consistency with regard to the role of  $r$  is concerned, when  $\lambda = 2$  (the “endless chase” scenario), the intensity of demand for firm  $b$  as it is about to innovate,  $x_b(1-\epsilon) = 2.6$  (calculated via Eq. (9) above; section 4.3), stands to  $a$ 's intensity of demand at the same time ( $=1.5$ , as derived from Eq. (10)) in roughly the same ratio as do the corresponding values at  $-\epsilon$ , which is to say,  $1.73 (= 2.6 \div 1.5)$  vs.  $1.56 (= \frac{1}{B^2} + 1)$ .

are: 1) an *elastic* demand ( $\gamma = 2$ ); 2) an R&D outlay that is neither prohibitive nor “trifling,” i.e., learning economies that are neither too swift (with a steeply declining learning curve, the monopolist/corporate titan always wins) nor too arduous (with a gently downward-sloping learning curve, the innovator is inexorably foredoomed)—the parameter at play here is  $W$ , by way of  $\lambda$  ( $\lambda = 2$ ); and 3), which is a complementary restatement of the previous prerequisite, a lapse time  $t_i$  —viz., the time required by the innovator to achieve the same level of efficiency as its rival's— of about *a third* of the innovation period  $\mu$ .

Eq. (11) can also be thought of as encapsulating a “micro-macro” transition phase: that is, a transition from the “micro” to the “macro” dimension. The “micro” sphere is inhabited by the simple economic agents and their routines: here, the learning curves and the imitation responses constitute the “micro” domain. The dynamics of the competition itself and the cumulative result, as portrayed by the long-run average cost curve

for the industry, form the “macro”-domain proper of the economic problem at hand. The former delineates the action of *simple* agents. The latter apprehends the mechanics of the system, viewed as a coherent collective of interacting agents.

This model extends *deterministically* the industrial dynamics developed by Iwai: by following the methodological approach of the Neo-Schumpeterian school, according to which the micro-domain is related to the somewhat vague, though the vivid, notion of “routine,” competitive settings lend themselves to a more realistic analysis, whose implications are fascinating [6, 7]. No game-theoretic or utility-maximizing concept has been employed here, being the competitive structure completely determined by demand, learning factors and industrial structure (two firms and no significant barrier to entry, save for the imitation lag).

When firms strive to provide the desired service, the strategic variable per se is irrelevant. In this context, the strategic option to manipulate the markup does not seem to affect the long-run configuration: the ineffective producer is simply

forced to leave the market. The true strategy itself resides in the organizational and managerial routines, and these cannot be separated from the learning curve. The curve itself, along with an

elastic demand function and the chance for newcomers to secure a footing in the market after the innovation, afford, together, a valid description of markets sensitive to technological evolution.

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ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-1-41-47  
JEL Codes: G11, G15

# Developments in the Russian Syndicated Loans Market

Alexey Tarasov

## ABSTRACT

**Aim and subject.** This article presents an overview of important developments in the Russian syndicated loans market. This market has become an essential source of funding for corporations, financial institutions, and projects aimed at the growth of the Russian economy. **Method.** The latest market data, legislative developments, and the main stages of executing a syndicated loan transaction are reviewed. **Results.** Loan structures utilized in the market are analyzed, including bridge loans, revolving credit facilities, term loans, pre-export finance facilities and project finance loans. **Conclusion.** The comparison of “local” and “international” syndicated loans is proposed, together with an overview of sustainable syndicated loans and technological developments affecting the loan market.

**Keywords:** syndicated loans; Russian capital markets; financial regulation; investment banking; financial technology

**For citation:** Tarasov Alexey. Developments in the Russian syndicated loans market. *Review of Business and Economics Studies*. 2022;10(1):41-47. DOI: 10.26794/2308-944X-2022-10-1-41-47

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Изменения на российском рынке синдицированных кредитов

Алексей Тарасов

## АННОТАЦИЯ

**Предметом и целью** статьи является анализ событий, происходящих на российском рынке синдицированных кредитов, являющихся важнейшим источником финансирования корпораций, финансовых институтов и проектов, направленных на рост российской экономики. **Метод.** Представлены последние рыночные данные, законодательные изменения и основные этапы оформления сделки синдицированного кредита. **Результат.** Сделан анализ кредитных структур, включая срочные и промежуточные кредиты, возобновляемые кредитные линии, кредиты предэкспортного и проектного финансирования. **Вывод.** Предложена методика сравнения «местных» и «международных» синдицированных кредитов, а также представлен обзор устойчивых синдицированных кредитов и технологических разработок, влияющих на кредитный рынок.

**Ключевые слова:** синдицированные кредиты; российские рынки капитала; финансовое регулирование; инвестиционная деятельность банков; финансовые технологии

**Для цитирования:** Тарасов А.А. Изменения на российском рынке синдицированных кредитов. *Review of Business and Economics Studies*. 2022;10(1):41-47. DOI: 10.26794/2308-944X-2022-10-1-41-47

## 1. Introduction

A syndicated loan is provided to the borrower by a syndicate of lenders. It is structured, arranged, and syndicated by one or several bookrunners, who use the primary loan market to share the risk among the wide base of potential lenders that are rewarded by fees for joining the deal [1]. The key features of the syndicated loans market are the following [2]: (i) loans are provided to borrowers including corporations, banks, development institutions, project finance special-purpose vehicles (“SPVs”); (ii) lenders are commercial and investment banks, as well as institutional investors; (iii) there is a wide range of loan instruments that can be structured to suit the borrower’s requirements; (iv) the set of facility documents are prepared by reputable legal firms based on templates developed by market associations; (v) the transaction execution standards are well tested and accepted by the market players; (vi) the flows of funds and information between the borrower and lenders are channelled via the Facility Agent; (vii) there is an active secondary market for trading syndicated loans.

Globally, the syndicated loan market is one of the largest debt markets, with 2020<sup>1</sup> volumes totalling 3,5 tn USD across 6,890 deals. To note, due to the pandemic, this represents a decrease of 23.0 in volume and 20.2 per cent in deal count compared to the 2019<sup>2</sup> results. Bridge loans, used to finance mergers & acquisitions (M&A), decreased by 15.2 per cent to USD 249.2 bln, while their total number fell by 7.4 per cent to 159. JP Morgan ranked as the top bookrunner with a 9.56 per cent market share, followed by BofA Securities (8.41 per cent) and Citi (5.65%). In 2019, prior to the effects of COVID-19, the market registered total volumes of 4,4 tn USD, with the total number of deals being 8,164. The total volume of bridge loans was USD 293.3 bln (141 deals). BofA Securities was the No.1 bookrunner with a 9.63 per cent market share, while JP Morgan (9.17 per cent)

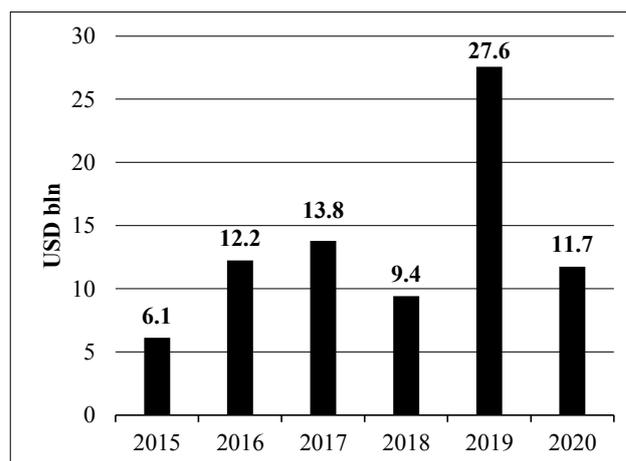


Fig. 1. Dynamics of the Russian syndicated loans market, USD bln

Source: Cbonds and the author.

and Citi (5.70 per cent) ranked second and third, respectively.

This article is dedicated to the latest developments in the Russian syndicated loans market and is the continuation of research presented in [3–4]. This market is an important source of capital for corporate borrowers and financial institutions (“FIs”) whilst also providing the long-term project finance funds required for the growth of the Russian economy. The first section presents a general overview of the Russian market, including deal volumes, major borrowers and lenders (from both the corporate and FI spaces), as well as the major recent legislative developments relating to syndicated lending. The second section is devoted to the description of loan structures used by borrowers for various specialized financing purposes, including bridge loans, revolving credit facilities (“RCFs”), term loans, pre-export finance facilities (“PXF”), and project finance loans. An important development in the market of the past few years is the rise of sustainable loans. The third section presents the main stages of executing a syndicated loan transaction and the technological developments (such as web-based systems for information exchange during syndication) affecting the loan market.

## 2. Overview of the Russian loan market

Despite the significant negative impact of COVID-19 and global economic uncertainty,

<sup>1</sup> Bloomberg. Global Syndicated Loans Review. Full Year 2020. <https://www.bloomberg.com/press-releases/2021-01-04/bloomberg-global-syndicated-loans-league-tables-fy-2020>

<sup>2</sup> Bloomberg. Global Syndicated Loans Review. Full Year 2019. <https://www.bloomberg.com/press-releases/2020-01-02/bloomberg-global-syndicated-loans-league-tables-fy-2019>

Table 1  
*Terms & Conditions of Syndicated Loans for Russian Borrowers in 2020*

Parameter	NLMK	SUEK	EuroChem	Sovcombank
Industry	Metals & mining		Chemicals	FIs
Instrument	RCF	PXF	Term Loan	
Volume	EUR 600 mln	USD 800 mln	USD 460 mln	USD 350 mln
Purpose	General corporate purposes	General corporate purposes and refinancing		Trade finance operations
Date	July 2020		October 2020	December 2020

Source: Cbonds and the author.

the Russian syndicated loans market demonstrated moderately positive results in 2020. A significant number of deals was executed in the market with a total volume of USD 11,7 bln.<sup>3</sup> Compared to 2019, as expected, the market showed negative dynamics (–57,4 per cent in terms of volumes); however, the market still managed to exceed the 2018 results (+24,6 per cent). Please refer to Fig. 1 for the Russian syndicated loans market volumes in 2015–2020.

Among the deals done in 2020 were transactions utilizing different structures of the loan market (bridges, RCFs, term loans, PXFs, project finance) for the leading borrowers from the major industries of the Russian economy: metals & mining, chemicals, FIs, oil & gas, transport. Table 1 presents the details of major selected transactions.

The major lenders in the market were leading European banking groups (UniCredit, Societe Generale, ING, Credit Agricole, Deutsche Bank) with a total market share of 50%, mainly due to the arrangement of RCFs and PXFs. Russian banks and development institutions (Sberbank, VTB, Gazprombank, Alfa-Bank, VEB.RF) were focused on term loans and project finance transactions, with a market share of 20%. Most of the remaining market share was distributed among American and Asian banks (such as ICBC and Citigroup).

It can be said that some of the most notable market developments were related to legislation. The Federal Law dated 31.12.2017 “On Syndicated Credit (Loan)...”<sup>4</sup> has provided an important impetus for the Russian loan market, including defining loan market terms and stream-lining legal processes, expanding the availability of funding for borrowers, providing for the participation in the market of institutional investors. The Federal Law “On amendments...”<sup>5</sup> changed and further expanded this law by covering such important issues as funded sub-participation deals, optimization of procedures relating to loan security, and the actions of the lenders and the Facility Agent in cases involving syndicated loans in bankruptcy proceedings.

A cornerstone feature of the market is the availability of Russian-law documentation templates developed by the Association of Banks of Russia<sup>6</sup> (“ABR”). These documents are used for “local” deals, mainly bridge loans and project finance facilities, denominated in RUB and provided by Russian banks and development insti-

<sup>4</sup> Federal Law dated 22.12.2020 No. 447-FZ “On Amendments to the Federal Law “On Syndicated Credit (Loan) and Amendments to the Legislative Acts of the Russian Federation” and to Certain Legislative Acts of the Russian Federation”.

<sup>5</sup> Federal Law dated 31.12.2017 No. 486-FZ “On Syndicated Credit (Loan) and Amendments to the Legislative Acts of the Russian Federation”.

<sup>6</sup> The English language website of the Association of Banks of Russia can be found following the link: <https://asros.ru/en/>. The documentation for the syndicated loan market is developed by the Committee for Investment Banking Products (link to Russian language website is: <https://asros.ru/committee/product/>).

<sup>3</sup> Cbonds. The financial data vendor and news agency. <http://loans.cbonds.com/>

Table 2  
Comparison of “Local” and “International” Syndicated Loans in the Russian Market

Parameter	“Local” Syndicated Loan	“International” Syndicated Loan
Industries	FMCG, Retail, Transport	Metals & Mining, Oil & Gas, Chemicals
Instruments	Bridges, Term Loans, Project Finance	RCFs, Term Loans, PXF
Banks	Russian State and Commercial Banks, Development Institutions	European, American and Asian Banks
Legal Counsels	Russian Law Firms	International Law Firms
Documentation	Russian-Law documents developed by the ABR	English-Law documents developed by the LMA

Source: Cbonds and the author.

tutions [5]. The boilerplates of the Loan Market Association<sup>7</sup> (“LMA”), governed by English law, are used for “international” deals, such as PXF provided to Russian commodities exporters in USD/EUR by global banks [6]. The comparison of “local” and “international” loan deals is presented in table 2.

### 3. Russian Loan Market Instruments

For borrowers, syndicated loans offer a bigger volume than bilateral loans and more flexibility of terms and structure than Eurobonds [7]. This section will present the major structural parameters of the five main instruments utilized by Russian borrowers in the syndicated loans market [8].

- **Bridge loans.** *General description:* short-term facilities used to stop-gap the financial needs of the borrower between spending cash and raising of longer-term funds from capital markets; *volume:* up to USD 200 mln; *purpose:* usually for financing M&A deals; *tenor:* 3–6 months, with an extension option of up to 1 year; *repayment:* by a bullet at maturity; *security:* none; *key terms & conditions:* due to the short-term nature of such loans, they are usually provided on a covenant-lite basis; *syndicate composition:* club of 2–3 banks acting as mandated lead arrangers (“MLAs”); *deal schedule:* 4–6 weeks.

- **RCFs.** *General description:* medium-term instrument utilized in tranches for maintaining the liquidity position of the borrower, usually from the metals & mining and telecom industries; *volume:* USD 200–250 mln; *purpose:* working capital; *tenor:* up to 3 years with individual tranches being of 3/6/12 months; *repayment:* all tranches must be repaid at maturity of the RCF; *security:* none; *key terms & conditions:* RCFs can be committed or uncommitted, depending on the borrower’s requirements; *syndicate composition:* 3–4 banks acting as MLAs; *deal schedule:* 6–8 weeks.

- **Term loans.** *General description:* standard medium-term instrument market used by Borrowers for general corporate purposes; *volume:* USD 250–500 mln; *purpose:* financing capital expenditures and refinancing of the current loan portfolio on more favourable terms; *tenor:* 3–5 years; *repayment:* by a bullet at maturity (for tenors of up to 3Y) or in semi-annual instalments (for tenors longer than 3Y); *security:* guarantees/sureties provided by holding and operating companies of the borrower’s group; *key terms & conditions:* package of financial covenants, including Net Debt/EBITDA, EBITDA/Interest Expense, and Tangible Net Worth; *syndicate composition:* 2–3 banks as bookrunners, 5–7 as MLAs (depending on loan volume); *deal schedule:* 8–10 weeks.

- **PXF.** *General description:* the most common instrument used for raising long-term funding by leading Russian exporters from

<sup>7</sup> The website of the LMA is: <https://www.lma.eu.com/>. The documents & guidelines are available following the link to members-only: <https://www.lma.eu.com/documents-guidelines/documents>

various commodities industries; *volume*: USD 500–750 mln; *purpose*: financing of trade operations; *tenor*: 5 years; *repayment*: in equal quarterly instalments following a grace period of 1–2 years; *security*: assignment of rights under export and sales contracts, withholding rights on special bank accounts, guarantees/sureties provided by trading companies of the borrower’s group; *key terms & conditions*: the set of financial covenants includes the debt-service cover ratio and the loan-life cover ratio; *syndicate composition*: 1–2 banks as coordinators, 4–5 banks as bookrunners, up to 10 banks as MLAs; *deal schedule*: 10–12 weeks.

- **Project finance loans.** *General description*: structured long-term loans granted to SPVs for greenfield projects, usually in the oil & gas, chemical, and transport industries; *volume*: exceeding 750 mln USD; *purpose*: construction of industrial facilities, mining projects, the building of roads, ships and aircraft’s financings; *tenor*: 7 years and longer; *repayment*: depending on the cash-flow of the project with repayments starting during the operation phase once the investment phase is completed; *security*: pledge of shares, fixed assets (mortgage, equipment), sales contracts; *key terms & conditions*: full set of specialized covenants to mitigate the construction, technical and market risks; *syndicate composition*: 2–3 banks as financial advisors, landmark deals can include up to 20 banks as lenders; *deal schedule*: more than 12 weeks.

An important development in the Russian market is the increasing importance of syndicated loans linked to sustainable development indicators [9]. The largest Borrowers use such loans to achieve the goals related to Environmental, Social, and Corporate Governance (“ESG”). Borrowers provide these loans in the Russian market according to the “Social Loan Principles”<sup>8</sup> developed by leading credit market associations<sup>9</sup>: the Loan Market Association, the Asia-Pacific Loan Market Association, and the

<sup>8</sup> The Social Loan Principles are available following this link: [https://www.lma.eu.com/application/files/1816/1829/9975/Social\\_Loan\\_Principles.pdf](https://www.lma.eu.com/application/files/1816/1829/9975/Social_Loan_Principles.pdf)

<sup>9</sup> Please refer to the specialized sections of the associations’ websites for further information: LMA: <https://www.lma.eu.com/sustainable-lending>; APLMA: <https://www.aplma.com/en/gsl>; LSTA: <https://www.lsta.org/news-resources/sustainability-linked-loans-published>

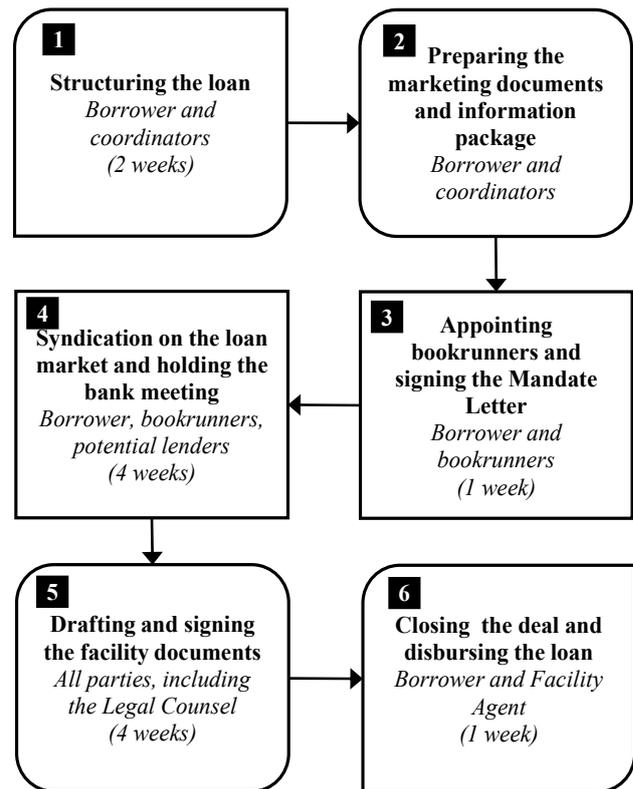


Fig. 2. The main stages of executing a syndicated loan transaction

Source: The author.

Loan Syndications and Trading Association. An example of sustainability linked syndicated loan in the Russian market is the USD 1,085 bln PXF for UC Rusal.<sup>10</sup> This deal was closed in 2019, with proceeds going for refinancing purposes. The margin of the loan depends on the achievement by UC Rusal of key performance indicators in the ESG sphere.

#### 4. Transaction Stages and Technology in the Russian Loan Market

The following are the main stages of executing a syndicated loan transaction [10] (please, also refer to Fig. 2):

1. **Structuring stage**: the borrower (with the assistance of coordinators for large transactions) sets the main terms of the potential facility according to its financial requirements.

2. **Preparation stage**: the borrower updates its investor presentation and financial model, as well as the latest International Financial Reporting Standards (“IFRS”) financial statements,

<sup>10</sup> Additional information on UC Rusal is available here: <https://rusal.ru/en/press-center/press-releases/rusal-wins-perfect-10-deals-of-the-year-txf-award/>

while the coordinators prepare the Invitation Letter and the Information Memorandum

3. Appointment stage: the borrower chooses the bookrunners who will be handling the syndication process and then signs together with them the Mandate Letter (that also includes the Term Sheet).

4. Syndication stage. The borrower and the bookrunners agree on the syndication strategy and list of potential lenders to be invited to the deal; the bookrunners send out the marketing documents and information package; make the necessary arrangements for the bank meeting and then handle the information requests from potential lenders during their credit approval process; finally, the bookrunners collect the Commitment Letters from approved lenders and together with the borrower finalize the composition of the syndicate.

5. Documentation stage. The borrower and the coordinators appoint the Legal Counsel for the transaction from a panel of international law firms; once engaged, the legal counsel starts work on the facility documents using the relevant templates (including the multi-party Facility Agreement, security documentation, fee letters, legal opinions); the documentation stage proceeds in parallel to the syndication process, with all parties reviewing the drafts and submitting their comments to the legal counsel.

6. Closing stage. All required documents are signed by the borrower, lenders, and the Facility Agent, while the legal opinions are issued by the Legal Counsel; following the certification by the Facility Agent that all Conditions Precedent have been completed, the funds under the facility are provided by the lenders to the borrower.

The efficiency of the execution process is considerably improved by the technological developments significantly affecting the loan market. The adoption of web-based systems, such as DebtDomain<sup>11</sup> and Intralinks,<sup>12</sup> for information exchange, improves the efficiency of the syndication stage. The bookrunners of

the loan conclude an agreement with one of the service providers and upload to the cloud the key documents of the syndication stage (Invitation Letter and Information Memorandum) and the information package (updated investor presentation, financial model, latest IFRS financial statements) to the servers. Then emails are auto-generated and sent to the list of potential lenders, who are granted access to the deal data after registering and accepting the Non-Disclosure Agreement. During the syndication stage, the documents can be updated by the bookrunners, and based on the requests of the potential lenders' new materials can be uploaded to the cloud (for example, rating agency reports and reports of independent consultants concerning the operations of the borrower). Based on this data, the potential lenders receive their credit approvals and then provide their feedback regarding participation in the deal to the bookrunners.

The secured signing of the facility documents can be achieved using qualified electronic signature technology. It allows to streamline the process and have all the documents signed by all parties (borrower, lenders, Facility Agent) within one business day online, with the legal counsel controlling the procedure in real-time. Following the signing of the facility documents, all settlements and communications under the syndicated loan are executed via the Facility Agent. The optimization of the agent's duties can be achieved by using special algorithms for the automation of its role. Such algorithms use specialized software, web-based systems, and qualified electronic signature.

## 5. Conclusion

The moderately positive results demonstrated by the Russian syndicated loans market in 2020, taken together with the progressive legislative developments, allow for optimistic expectations regarding the medium-term prospects of this important market. However, it should be noted that international and local macroeconomic and financial factors will be significantly affecting the market going forward.

The most important trend for the market is the further expansion of "local" deals. Such loans are provided by Russian banks in RUB,

<sup>11</sup> DebtDomain. Provider of web-based systems for loan syndication, secondary loan sales and agency. <https://www.debt-domain.com/>

<sup>12</sup> Intralinks. Provider of secure collaboration software and secure online document sharing solutions. <https://www.intralinks.com/>

using the documentation templates governed by Russian law developed by the ABR. In the future, it can be expected that the library of such documents will be expanded to cover all instruments of the syndicated loans market, including bridge loans, term loans, and project finance loans.

The development of transaction standards and technology represents another challenge for

the market. This should allow for more efficient execution of syndicated loan transactions by decreasing the deal schedule, thereby allowing the borrowers to receive the required funds in shorter timeframes. For lenders, the adoption of such technology, as web-based systems for information exchange, should optimize the syndication process in terms of required resources for deal execution.

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ORIGINAL PAPER

DOI: 10.26794/2308-944X-2022-10-1-48-78

JEL Codes: Z10, Z11, Z12, Z13

# Should we “Sicilianize” Our *Weltanschauung*? Leafing through Sciascia in Search of the Meaning of Society, Power & Conspiracy

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## ABSTRACT

**Aim and subject.** This piece argues that the philosophical bedrock of conventional social science, including political economy, is a collection of over-aestheticized platitudes (viz., “the great books of the West”), whose common thread is, for the most part, a utilitarian and tritely moralistic appreciation of the human condition and human behaviour in general. In the search for an alternative poetic phenomenology, it is here proposed that the fiction of Leonardo Sciascia (1921–1989) might be a more promising platform. **Method.** Social scientists would be better off taking their literary cues from the Sicilian writer, whose insights on the physiology of power are here, as a **result**, subdivided and analyzed in the following sections: the elevation of “Sicily” to a standard categorization of modern societies; a typological description of woman and men; the facelessness of Mass-Man; the functionalism of the Mafia; society and power, Justice; fictional narrative; and theology. **Conclusion.** Economists are interested in the work of Leonardo Sciascia when studying the problems of the incoming criminalization of the economy and the curtailment of the state (for example, in terms of issuing money), as well as the further merging of economic elites (oligarchy) with state power (plutocracy). **Keywords:** Sicily; Italy; power; mafia; crime; south; terrorism; theodicy; capital punishment; literature; theology; psychology; cultural studies; sociology; history; gender; criminology; democracy; oligarchy; conspiracy; politics

**For citation:** Preparata Guido G. Should we “Sicilianize” our *Weltanschauung*? Leafing through Sciascia in search of the meaning of society, power & conspiracy. *Review of Business and Economics Studies*. 2022;10(1):48-78. DOI: 10.26794/2308-944X-2022-10-1-48-78

# Должны ли мы «сицилизировать» наше мировоззрение? Листая Sciascia в поисках смысла общества, власти и заговора

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## АННОТАЦИЯ

**Предмет и цель** статьи — представить доказательства утверждению, что философская основа традиционных социальных наук, включая и политическую экономию, представляет собой набор чрезмерно эстетизированных банальностей, общим местом которых является по большей части утилитаристская и моралистическая оценка человеческого состояния и поведения в целом. **Метод.** В поисках альтернативной литературной феноменологии автор предлагает использовать научные труды Леонарда Шаша (1921–1989), всемирно известного своими публикациями о сицилийской мафии, которые могли стать многообещающей платформой для формирования новых экономических и социологических концепций. **Выводы.** Социологам, безусловно, были бы полезны взгляды сицилийского писателя на физиологию власти. Исследователям-экономистам при изучении проблем криминализации экономики и свертывания государства (например, в части эмиссии денег), а также дальнейшего срастания экономических элит (олигархии) с государственной властью (плутократия) также были бы интересны многие книги Леонарда Шаша.

**Ключевые слова:** Сицилия; Италия; сила; мафия; преступление; юг; терроризм; теодицея; смертная казнь; литература; богословие; психология; культурология; социология; история; Пол; криминология; демократия; олигархия; заговор; политика

**Для цитирования:** Preparata Гвидо Г. Должны ли мы «сицилизировать» наше мировоззрение? Листая Sciascia в поисках смысла общества, власти и заговора. *Review of Business and Economics Studies*. 2022;10(1):48-78. DOI: 10.26794/2308-944X-2022-10-1-48-78

## Introductory: In Need of New Lenses

Poiché nulla si sa di sé e del mondo se la generosità degli uomini, se la letteratura non glielo apprende.<sup>1</sup>

Leonardo Sciascia, *La Strega e il capitano* [1, p. 13]

For the time being, the question could be whether it would be gainful to peep at this inexplicable world of ours through the pellucid cameo of Leonardo Sciascia's (1921–1989) Sicily. Just for the length of, say, a season; indeed, being it understood that this cameo, or any lens, even if *intagliata* more or less artfully, is still a “lens.” And as far as lenses are concerned, these appear to be prosthetic devices which the irreversible dimming of our waking state condemns to rapid obsolescence: lenses condemned not just by the corruption of our spiritual eyesight, but also, by time, which erodes them all.

Of course, one could retort that if such is the fate of all dusty and abraded lenses, certain “crystal visions,” instead, certain “immortal insights” have kept their crispness, their clarity throughout the ages: it is that story of the grain, the kernel of truth and beauty etc., which these insights (of the “great poets and thinkers”) putatively possess; and which allegedly account for their longevity, as well as their entitlement to front-row seating in all manuals of the world's libraries. And truth be told, seeing these titanic “regulars” — and their many dwarfish accompanists — monopolizing the bistros of our academic youth (and the taverns of our tedious mid-season), century after century, is justified cause for concern and/or consternation: not that anyone is thinking of impugning Aristotle & Plato, Hobbes & Spinoza, Shakespeare & Dante, Hegel & Marx, Locke & Rousseau; but

<sup>1</sup> If the generosity of men, of literature will not teach him, one knows nothing of himself or the world (The Sorceress and the Captain).

was there truly nothing else, nothing just as good, or — God forbid — *better* in their day and age? Or even before and since?

Or, possibly, in this fanfare against boredom, impugning the tenure of (some of) these bigwigs is precisely what one ought to do. Who made them kings anyway? Was it the good taste of “public opinion” or the better taste of political impresarios bent on feeding “public opinion”? There is something insufferably teleological and thereby daftly *conservative* in this conjectural metaphor that some higher principle of cosmic economics kneads the plasm of human creation into a glassy iceberg of worthless floes capped by a dome of priceless gems (the “big names”). To progress in the *cursus honorum*, we need constant reassurance that what we are poring over are truly the diamonds in the spire rather than lesser vitreous shards used for ballast. But can we be certain that the mass underwater does not hide far greater treasures than the artefacts endlessly publicized and imposed overhead? An (uncharted) archipelago of whole icebergs of misunderstood geniuses?

As it generally goes, a few (“heterodox”) practitioners periodically attempt a timid revolt against State-mandated curricula and periodically fail not only for mistaking nobodies for greats or scavenging the inedible organs of those rated great already but especially for spending most of their time invoking the Greats' pardon for not citing them enough especially when they are trying their best not to. An even more despaired fringe of students of political economy has gone so far as to seek shelter in the alternative spaces of decadent literature & conspiracy theory. It is to the plight of this miserable lot that the present piece is dedicated. I wish to write on behalf of all students of social mystique (Pessoa) “in search of an author.”

Yes, let us say it: the classics are a sore disappointment to the militant sceptic: more often than not, the “great books” convey (totalizing)

messages and impressions that are altogether too abstract, too “pure,” too presumptuously self-possessed of a conception of “the good.” These prescriptive breviaries are all designed to convey a self-evident intimation of what is “right” — and, *nota bene*, this could be for the sake of moral edification, State-management, revolution, or otiose and debauched depravity alike. But the crux of the whole affair is that these august writings consecrated to the “good” strike their admonitory roots in a specular conception of “evil,” which, itself, is the most lamentable caricature ever drawn by the intellectual tradition of the West.

Consider for instance (a micro-sample of) Machiavelli’s “classic” fresco of Man’s cynical opportunism,<sup>2</sup>

1. The reason is that nature has so created men that they are able to desire everything but are not able to attain everything: so that the desire being always greater than the acquisition, there results discontent with the possession and little satisfaction to themselves from it. From this arises the changes in their fortunes; for as men desire, some to have more, some in fear of losing their acquisition, there ensues enmity and war, from which results the ruin of that province and the elevation of another.

Or

2. And the world has always been inhabited by men who share the same passions. There are those who serve and those who rule, and there are those who serve unwillingly, those who serve willingly, and those who rebel and are chastised.

And

3. The reason for this is a fact about men in general: they are ungrateful, fickle, deceptive, cowardly and greedy. As long as you are doing them good, they are entirely yours: they’ll offer you their blood, their property, their lives, and their children — as long as there is no immediate prospect of their having to make good on these offerings; but when that changes, they’ll turn against you.

It gets a tad better, but not much, with the following aphorism:

4. “It is necessary to take such measures that, when [people] believe no longer, it may be possible to make them believe by force”.<sup>3</sup>

<sup>2</sup> Of which the Anglo-Saxon mainstream is so gluttonous.

<sup>3</sup> 1. La cagione è, perché la natura ha creati gli uomini in modo che possono desiderare ogni cosa, e non possono conseguire

Poor “Mal-chiavello”: as he himself wrote to a friend, politology was for him not a job but a devotion; a devotion which compelled him, *venuta la sera*, to swap out dirtied clothes for “royal and curial vestments” so that he could immerse himself in a spiritual session with his (and our) “classics,” — his revered “antiqui huomini.”<sup>4</sup> It is a beautiful image. And yet for all Machiavelli’s keenness, the result is so unimaginative that one cannot help feeling shortchanged on evil’s true nature with yet another cheap parody. Do the learned doctors of academia really believe that knowledge of Machiavelli’s *Prince* is a sine qua non for fathoming the essence of power? And, besides, what are we to do, for the purpose of politological theorizing, with, say, the wicked progression of Shakespeare’s *Richard III*, Dante’s *girone* of the usurers, or even Plato’s political aretaics? Precious little, in fact. Sub-

ogni cosa: talché, essendo sempre maggiore il desiderio che la potenza dello acquistare, ne risulta la mala contentezza di quello che si possiede, e la poca sodisfazione d’esso (Discorsi sopra la prima deca di Tito Livio, The Discourses, Book I, Chapter 37, 1517). 2. Il mondo fu sempre ad un modo abitato da uomini che hanno avuto sempre le medesime passioni, e sempre fu chi serve e chi comanda, e chi serve mal volentieri, e chi serve volentieri, e chi si ribella ed è ripreso (Del modo di trattare i popoli della Valdichiana ribellati, On the Method of Dealing with the Rebellious Peoples of Valdichiana, 1503) 3. Perchè degli uomini si può dire questo generalmente, che sieno ingrati, volubili, simulatori, fuggitori de’ pericoli, cupidi di guadagno; e mentre fai loro bene sono tutti tuoi, ti offeriscono il sangue, la roba, la vita, ed i figliuoli, come di sopra dissi, quando il bisogno è discosto; ma, quando ti si appressa, si rivoltano (Il principe, The Prince, Chapter XVII, 1513) 4. Conviene essere ordinato in modo che, quando [i populi] non credano più, si possa fare loro credere per forza (The Prince, Chapter VI).

<sup>4</sup> Venuta la sera, mi ritorno a casa ed entro nel mio scrittoio; e in sull’uscio mi spoglio quella veste cotidiana, piena di fango e di loto, e mi metto panni reali e curiali; e rivestito condecientemente, entro nelle antique corti delli antiqui huomini, dove, da loro ricevuto amorevolmente, mi pasco di quel cibo che solum è mio e ch’io nacqui per lui; dove io non mi vergogno parlare con loro e domandarli della ragione delle loro azioni; e quelli per loro humanità mi rispondono; e non sento per quattro hore di tempo alcuna noia, sdimentico ogni affanno, non temo la povertà, non mi sbigottisce la morte: tutto mi transferisco in loro (“When evening has come, I return to my house and go into my study. At the door I take off my clothes of the day, covered with mud and mire, and I put on my regal and courtly garments; and decently re clothed, I enter the ancient courts of ancient men, where, received by them lovingly, I feed on the food that alone is mine and that I was born for. There I am not ashamed to speak with them and to ask them the reason for their actions; and they in their humanity reply to me. And for the space of four hours I feel no boredom, I forget every pain, I do not fear poverty, death does not frighten me. I deliver myself entirely to them,” Letter to Francesco Vettori, 10 December 1513).

lime verbalisms, all of them, with a more or less cogent relation to the realm of fact, but none being actually *realistic* — highly stylized but not veridical. Impressionisms, fragments. And all too aesthetic. The touch of the classics is all too *contrived*.

But is this not the *very best* the West can offer? Namely, the usual menu of majors and minors: the Debussys and the Saties, the Dalís and the Massons, the major (*The Laws*) and minor (*Menexenus*) dialogues?

And so it is that the politologist wakes up daily to a state in which his so-called phenomenology is a discharge of images, sounds and verbalisms, a mass of symbols, of which he may only hope to make sense by arranging it in artistic — generally narrative — form. Screenplays or, more simply, stories — *fables convenues*, they say (of official historiography; to this we shall return). This phenomenological mass is some kind of semi-palpable *feuilleton*, syncopated by nightmarish free-falls, that eludes close companionship on account of two fundamental mysteries: one, as said, is the realm of “evil,” and the other is what may be designated as the “micro-macro” transition phase, namely the enunciation of the set of laws that govern the correlation of the psychology of the single to that of the *collective*. Without these two elements, one cannot expect to cover much ground. And, in this regard, majors and minors appear to have just as little to offer to the social sciences. Or possibly not: maybe the minors might be “better” after all. Faced with such a challenge — i. e., of making proper politology — the student may indeed find it moderately gainful to rummage through crates of lenses and cameos in various states of wornness and, with guided luck, gather a bagful of such prisms and utilize them to filter information in varying, novel arrangements with a view to creating proper space for theory.

Leonardo Sciascia’s “Sicily” might be of use here: a sample of his best (political) work yields a microcosm that gravitates around the issue of *power*. His literary production affords a variety of insights into the ways in which social and individual (psychological and sentimental) life is shaped by more or less pronounced variants of the drive to subjugate (fellow human beings). This applies to the bulk of humanity, to which Sciascia’s “heroes” are, as we shall see,

the protocolar exception. This type of exploration is bound to yield some truth(s); at the very least, considered the substantial (though mostly provincial) success Sciascia was able to achieve in his lifetime, a survey of his work may also give a taste of what (a current of) the Italian intelligentsia of the 60s and 70s sanctioned as “acceptable” political fiction — stylistic technique aside, “*arti di pinna*”<sup>5</sup> in Sicilian, [2, p. 32] which, in the case of Sciascia, is indubitably superlative.

Because, at home, they are presently regarded as (twentieth-century) “classics,” Sciascia’s works, especially his mafia and detective novels, have been the frequent object of publicistic as well as scholarly analysis (not to mention their cinematographic adaptations), they will not be approached here with systematic historiographical or cultural curiosity: rather, the purpose is to sketch an outline of Sciascia’s *comédie humaine* — from the foundational beliefs to prophecy by way of institutional analysis (viz. how does the power system, at its most basic level, actually function?).

Whether what emerges from this little exercise turns out to be, all things considered, “better” than, say, the constructions of Machiavelli, Freud, or Aristotle is, at heart, not the issue. Or, maybe, that is precisely the issue: let us take, then, this rhetorical provocation as the expression of a quasi-frivolous need to reset the clock on socio-political investigation. This we may do by living less and less a rapid, psycho-cerebral life of stupefied dependency on the *obesas publicaciones* of the classics, and, occasionally, begin, instead, to breathe with alternative works of fiction, and acquire, with the infantile obsessiveness of the collector, one *minor* lens at a time, and...play with it. Let us disclaim: there is not “a whole lot” in Sciascia that the reader has not heard before in some form or other. But what there is, is a self-contained story as good as any; it is told by an author who was intrigued by power and who thought sociology one of the two<sup>6</sup> great impostures of our time: [3, p. 20] for us students of political economy perennially on the prowl, that is reason enough to reload our pens and scribble about it.

<sup>5</sup> Literally, pen-artistry.

<sup>6</sup> The other is architecture.

## “Sicily”

Sono piuttosto un scrittore italiano che conosce bene le realtà della Sicilia, e che continua a essere convinto che la Sicilia offre la rappresentazione di tanti problemi, di tante contraddizioni, non solo italiani, ma anche europei, al punto da poter costituire la metafora del mondo moderno.<sup>7</sup>

Leonardo Sciascia, *La Sicilia come metafora* [4, p. 78]

Sicily as a metaphor of the modern world.

First of all, Sicily is an island: a self-contained territorial entity which, for ages, and despite itself, has served as one of the chief thoroughfares of the Mediterranean. On account of its geographical location, the isle was forced to acquaint itself repeatedly with the *violence* of war and the rituals of invasion and conquest (the Greeks, the Romans, the Byzantines, the Arabs, the Normans, the French, the Spaniards, the British, the Piedmontese, the Austrians, the Spaniards again, the Germans, the Anglo-Americans, and “the Italians”...); for Sciascia, the sense of formidable impotence deriving from the protracted exposure to such a bloody *sarabande* of foreign marauding princes, viceroys, generals, bureaucrats & Demo-Christian margraves, and the cult of perennial usurpation to which they severally sacrificed with each passing dominion, has entrenched the Sicilian mind into a conch of trepidant and diffident solitude.

E a un certo punto l’insicurezza, la paura, si rovesciano nell’illusione che una siffatta insularità, con tutti i condizionamenti, le remore e le regole che ne discendono, costituisca privilegio e forza là dove negli effetti, nelle esperienze, è condizione di vulnerabilità e debolezza: e ne sorge una specie di alienazione, di follia, che sul piano della psicologia e del costume produce atteggiamenti di presunzione, di fierezza, di arroganza [...].<sup>8</sup> [5, p. 13]

<sup>7</sup> I am rather an Italian author who knows the reality of Sicily well, and who remains convinced that, of the many problems and contradictions affecting not just Italy, but Europe as well, Sicily casts a reflection so vivid that it could be construed as the metaphor of the modern world.

<sup>8</sup> At a given point, insecurity and fear are overturned into the illusion that such insularity, with all of its conditionings, impediments and rules, represents strength and privilege when, in truth, by experience and direct manifestations, it is the condition for weakness and vulnerability: and from this comes a sort of alienation, of madness, which, on the psychological and cultural planes, yields a disposition prone to presumption, conceit, arrogance [...].

It is thus precisely because it is such a “lonely” place that “Sicily is perfectly in accord with the world.” [4, p. 46]

Conquest and brutal arrogation have engendered fear and a tacit acceptance of prepotence as the chief way of life; and insularity, added to the mix, has forged a human type whose barbarousness and cynicism are keen. And, clearly, such a type is socially inseparable from, and inconceivable without, a highly stratified society, one in which virtually no “enlightened” bourgeoisie separates a mass of baked, semi-human campesinos from a noxious set of parasitical potentates, maniacally fixated on prerogative. The average Sicilian is terrified of the future —so much so that the future tense does not exist in the dialect— and the spiritual obtuseness inexorably acquired in the wasteland makes him seek apprehensive solace in material possession: he physiologically craves *la roba*, he craves “stuff.”

## Woman

Woman exists only as part and parcel of *la roba*: chattel, proper. To the Sicilian man, she is the incarnation of sex and lust, and her body, along with wealth, is one of the two foci of his regressive acquisitiveness; as such (especially as a prey, as fair game, if curvaceously attractive), woman looms as a living shadow of man’s fear of being entirely dispossessed by the fundamental unaccountability of the morrow. In this connection, the only notion of guilt entertained by the Sicilian is condensed in a proverb according to which not availing oneself of an opportunity (*la cummutità*)—i.e., of the glaring occasion of taking another’s wife and property— is a sin so great as to exceed any confessor’s forgiveness. Which is to say that in a world as unsympathetic as only ours can be, possessing as many women as may be in reach and grabbing as much stuff as may be on hand, is a commandment. And what you should expect from your neighbor is precisely what he must expect from you —scruple or hesitation could be fatal: the complete reversal of Christian morality, notes Sciascia. [6, pp. 33–34] Hence man’s existential feeling of precariousness and insecurity —sharpened on the one hand by the merciless joust for status in a spiritual realm bereft of intellectual tradition, and contaminated by the contorted urges of carnal appetite, on the other— force him to create a

type of theatrics, whose poses and grimaces he conjures to mask the repellent scramble of lecherous envy and self-loathing facelessness that sizzles beneath. For the Sicilian male, woman and wealth are thereby suffused with an aura of unclean “religiosity.”

Woman thus needs to be invoiced, and while sensuously fertile, periodically taken stock of, in the patrimonial synopsis of the husband’s possessions, like any other major assets of his net worth. Vexed, molested, and smeared since puberty by man’s unconscionable and repugnant urge to ground himself (barbarously) through her —because, nothingness that he is, he possesses nothing truly his to affirm himself with—, she spends the rest of her (mature, and unshapely) days seeking (no less barbarous) revenge. A foul sort of vengefulness, to which Sicilian women give free rein so soon as they take charge in “the horrible matriarchy” they have managed to erect within the familial nucleus behind the back of men too busy overpowering one another. The matriarchs typically exact revenge by poisoning topically all of their township’s interpersonal and familial currents with an unceasing flow of artfully disseminated mendacities, vicious instigations, and blasts of provocative dirt variously flung behind an iron mask of psychopathological, “frightful conformism.” [6, p. 14]

In this sense, and in this (psychic) “space,” woman is, without the shadow of a doubt, even more irrecoverable, even more damnable than man, the savage author of her barbarous fall: she is more lost than man himself. In terms of imagination and redemption, she always contributes less than he does; in the hierarchy of play she is always less than he is, vicariously diminished always. When she is desirable and desired —and dignified by status through marriage—, she perforce *manipulates*, and, like the intoxicatingly bodacious character of Luisa Roscio, she may even astutely perform as a willful accessory to (repeated) murder when so required by a conspiracy of lust, power and betrayal, such as that recounted in *A ciascuno il suo* (“To Each His Own,” see below). [7]

When unmarried, mishandled, and still very much carnally alive, woman drifts and suffers a squalid life of emotional and sexual disarrangement. Tumbling down from one seigniorial palace to another patrician manse, she is the object

of palpation and contemptuous obsessiveness at the hands of masters whose house she keeps while moonlighting as a *sorceress* —a curse on God for giving her this life!: floating by half in the low-tenacity broth of prostitutes, drifters, and petty delinquents, yet strongly breathing despite it all, she sells amulets and casts spells for a mass of folks that know no God but only disagreeable saints. Not technically beautiful, but rousingly physical, earthly, and utterly confused, woman-as-sorceress is the ideal scape-goat of the “system” — a system like the inquisitorial office of the city of Milan (Salem is everywhere), whose prosecutors had one forlorn commoner, Caterina Medici, strangled before burning her dead body at the stake for witchcraft in 1617. [8] Caterina’s last, rich and influential, patron, who was afflicted with chronic gastritis and an all-consuming morbid fixation for her, succeeded, with studied malevolence and the doctored testimony of a local intrigant, in “convincing” the authorities that she was the demoniacal source of his abdominal affliction: with the leverage of torture, false witness, and extracted confession, she was effectively and plausibly accused of having caused every single miscarriage in town (child mortality, illnesses, etc.) for the entire length of her domestic service, and finally dispatched.

In sum, woman matters enough to make a mentionable appearance on the stage only if she is sexually vibrant: if exceptionally beautiful, she may count on being married (or coupled) very young; on deceiving (more or less) perfidiously to gain status in her prime; and on intriguing to maintain privilege from mid-life to elderly demise. Otherwise, depending on her degree of tenacity she may either survive a peripheral life of domestic anonymity, eventually tempered by late matriarchal vendetta, or, with paroxysmal alternations of fortune —from the domestication of white magick to sacrificial tragedy—, run the ramble of the part-time Wiccan. The triad: in sum, woman summarizes herself in one (or a third of each) of three manifestations: the mindless vixen turned botoxed harpy, the hyper-hallucinated housemother, or the disenfranchised fuzzy-eyed enchantress.

### Types of Men

Men, for their part, are essentially subdivided into five categories: a) “men” (of honor); b)

half-men; c) pygmies or dodgers (*gli ominicchi, i furbi*); d) assfucks and cuckolds (*i piglianculo, i cornuti*); and e) *quaquaraquàs*.

In Sciascia, the vaguely philosophizing recital of these various typologies is assigned not to a literate heteronym, but to his lead Mafioso roles: [9, p. 204] the intimation seems to be that the study of human character would be more appropriately condensed into a *bestiaire*, and, therefore, that the summary exposition of the latter is better left to a ruffian. The Mafiosi are natural leaders of the barbarous realm —namely of the underworld— whose management they have been tacitly entrusted with by the overlords of high society — on this, they are all understood (we shall address this aspect when discussing “the System”). Just as hazily understood in all of this, though never explicitly expressed, is the notion of *tenacity*. The Mafia boss is the strongest within its stunted, socio-psychologically *inferior* domain (the microcosm of violence of delinquency), and as such he recognizes in the nobleman his own peer, his counterpart in the upper hemisphere of society. What the slumlord perceives as a wealthier “equal” is, in truth, the mirror image of himself among no less fierce, but —in terms of “commitment to purpose”—, [10, p. 237] more evolved, more *tenacious* strata: the gangster and the aristocrat are, in fact, peers in that they are both barbarous leaders sharing the same violent and predatory mindset, yet the dignitary avails himself of superior psychological resources (through heredity and upbringing) to exercise power — a power which, on the other hand, the lead mobster can only aspire to wield in brutal and subservient fashion (with a socio-historical leap in influence, however, which we will address hereafter).

The *hidalgo* and the racketeer are both men of honor, and both are barbarians —though divided by tenaciousness—, but not all tenacious types are necessarily barbarous. Truculent men of honor are willfully unaware of, and unconcerned by the penal code of the bourgeoisie, but they will acknowledge considerately, and only under very particular circumstances, just one category of their social and spiritual law-abiding and law-enforcing “enemies”: and that is the rarest caste of the incorruptible (and lettered) detectives and magistrates that uphold the law on their own principled, yet intelligently flexible terms, without “playing” or abusing the judicial machine. This type of hero

worthy of the thugs’ “respect” stands as the archetypal —and tenaciously benevolent— exception to a sea of all-encompassing wilderness, in which “justice” is, at best, a farce, and all men abstractly subjected to it are, in the super-optimistic case, “half-men.” That is, nondescript conformists with half the guts of the “real” men. But, to Sciascia’s Mafiosi, the reality is grimmer: there are far more *pygmies* around than half-men: i.e., overgrown children whose life is expended in monkeying the behavior of adults; not to mention the even more numerous assfucks and cuckolds —that multitude of unforgivable, unctuous, and hypochondriacally self-absorbed oafs that periodically allow others to despoil them of an ever dwindling sexual and pecuniary capital. “Thieves” and “imbeciles,” variously intended, marinate in the same cauldron as the cuckolds and assfucks: they are one step below the primates, who survive by means of astute trickery and expedients. And at the very bottom of the ghastly litter creeps the object of (the Mafioso’s) unbounded and self-evident disgust: the amorphous swarm of “the people”: hapless and squalid, obtuse and unsightly, and useless as ever —a swarm of low-form humanoids, beasts actually, so far below the threshold of assertive, rapacious manliness that, incapable even of proper speech, they, like ducks, manifest their insufferable presence by “[quaquara]-quacking” the few (monotone, repetitive, and predictable) lines that caption their perfectly meaningless and redundant existence.

Colorful as it may be, of course, the classification remains coarsely mono-dimensional: it is a declension of exclusively *predatory* types ranked by degree of tenacity (from alpha males to remissive pigtailed); other significant divides such as, say, *spiritual drift* (oppressive vs. non-violent and compassionate) —which, as said, is tangible whenever the hoodlum tacitly acknowledges the valor, and thus the honor, of the capable detective—, or *proneness to death*, are not systematically combined in the schema, which, thereby tacitly suggests that, seeing how the world spins, the *tableau humain* of the Mafioso, despite its boorish enunciation, will serve its basic interpretational purpose

As a side note: these five behavioral-spiritual casts seem archetypal; they are fixed. Baboons, say, are rather unlikely to rule the roost (although one can never be quite so sure). In any event, it

would be safe to assume that, in general, “men of honor” live at the top of their hill in one form or another. The others, with functional logic, deploy themselves in descending order of auxiliary serviceability: quaquaraquas, e.g., are perforce hard-toilers (slaves) and/or soldiers. Sad to say, Aristotle comes to mind here (viz. “natural-born slaves”). Finally, if anyone was curious as to what drives the advancement of the single individual among his peers (and exceptionally across social strata), here is what one of Sciascia’s “women” has to say on the subject: “I happen to know a rather wide circle of self-made men: and I can assure you that they’ve been made, all of them, by others — others, who, in turn, have been made by circumstances, combinations, and shady deals, which, even if momentous enough to break into history, remain, for all that, fortuitous and miserable.” [11, p. 96].

### Nobodies

One Mario Bruneri, a weird sort of Lombrosian psychopath, starts his earthly adventure as a type-setter, in Turin. He has a wife, from whom he would separate, and a son: he is known to be a decent man and a good worker. The (Great) War, which Italy joins in 1915, changes things. Bruneri dodges the draft, feigning illness. Thereafter, accompanied by a new woman, herself the successor to another lover who denounced him for abuse, he drifts entirely into a life of imposture. Defrauding one private party after another (other type-setters, business-owners...), he soon makes himself known to the hounds of justice. He changes name and flees to another city, where, with unsuspected talent, he improvises, launching a journal of literary criticism (!), while defrauding new acquaintances no less creatively than the old ones. Having, past this second spell, consumed entirely the margin for fraudulent maneuver, to survive, he goes on petty-thieving, until, one day, in 1925, he is caught stealing in a cemetery, and apprehended. Brought to the station he dissembles his identity, acting the raving fool, beautifully. Sent to Turin’s madhouse, he figures he has got it good: three meals per day, warm clothes, peace and quiet. His moll is starving out there; his wife and boy are not living it up either; but what is a burnt small-time-shyster with a taste for *Cyrano* and erotic limericks to do? And so he rides the system a little while

longer until the directors of the asylum, tired of paying free lunches to a putative amnesiac who does not look all that insanely forgetful, put his picture in the local paper, “Do you know this man?,” hoping that family would show up to reclaim him.

And at this juncture begins the real madness. In the published photograph, Bruneri’s wife recognizes her husband at once, and, lovingly, keeps mum, knowing he is better off committed than locked up if his identity were revealed. But one Renzo Canella of fair Verona, the brother of Giulio Canella, a once respected professor of literature who, as a commissioned officer of the Italian army, had gone missing in action in Macedonia, swears that the man in the photograph is his brother. The resemblance is uncanny.

Canella instantly travels from Verona to Turin to encounter Bruneri, who, smelling forthwith a golden opportunity to escape the most squalid of miserable ends, squeezes out of his persona all the twisted genius and charm psychopaths are frequently endowed with to attempt a winning impersonation of this other man, of this other, intellectually and musically-accomplished, bourgeois, higher than himself. It is going to be difficult. They meet, and talk for a few hours. Bruneri is *not entirely* successful. Renzo Canella is not conquered, at first: in the man before him he does not recognize the brother. But upon reaching Verona, he is not so sure anymore.

Logically, the following step is to bring into (the) play Canella’s wife, Giulia, who dressed and coiffed as she was in 1916 when she first came to be courted by Giulio, shows up at the mad house, and the emotion that seizes both upon eyeing each other is, allegedly, overwhelming. She has no doubt: the man is her husband. Ten years she had pined for her beloved, inconsolably, and, presently, miraculously, he has “returned,” returned from the dead, as it were. But another faction, made up of Canella’s erstwhile colleagues, friends and acquaintances, protests against what they decry as an outrageous, usurpative sham. The doubt as to the ontological substantiveness of this man confined that looks so much like the missing professor Canella sparks a national case, a true media sensation. Italy divides herself between “Cannelliani” and the skeptics. As for the Fascist regime, this last seems, for rather obscure reasons — possibly to cleanse somehow the rather tarnished name

of war veterans and to distract the masses from the political maneuvers by which it is achieving consolidation — to be leaning on the side of the former party.

Canella's family hires the nation's best legal talent to have the amnesiac of Turin released into its custody. The request is satisfied. And so Bruneri "goes back" to Giulio Canella's prosperous home, and to his young and winsome wife, to live the bliss of a second honeymoon; and a child is conceived. But, after a few weeks, the system throws a wrench in the works of the Canellas by recalling to the asylum the "amnesiac," whose release order, in fact, had to be signed by a magistrate only after having conducted the proper identity verification. As a note issued by the local police had informed the judicial authorities that the institution's inmate was but a picayune swindler, the presiding judge orders that Bruneri be detained *sine die*, not until, that is, the true name of the amnesiac is ascertained.

The State fought the Canellas, in the courts, for the length of four years (1927–1931), at the end of which the tribunal published a sentence that vindicated the skeptics: for the Law, the amnesiac was the police's old contumacious acquaintance, Bruneri. But, because the regime favored him in the role of Canella, Bruneri never served the four-year-and-fifteen-day sentence that awaited him: fantastically, he was issued a passport and allowed to "escape" to Brazil, where he ended his days in the Italian colony of San Paolo as one erudite Professor Julio Canella, who also took the time to write an impassioned memoir about his "struggle."

The trial had been punctuated by 142 testimonies, appeals, counter-appeals, cross-examinations, deliberations and counter-deliberations of both counseling teams: surreal moments in which Giulio Canella's friends and acquaintances had come to vet the dissembler's musical, academic, and literary knowledge; his memories, recollections, and facts, details known only to the "real Giulio"; and tics, body language, physicality, physiognomic comparison... Obviously it was not Giulio Canella: one inch shorter than the professor, Mario Bruneri could not, like him, conceptualize, or play the piano at all, but, again, the evidence, though preponderantly in his disfavor, was never quite fully conclusive: indeed, a few of those particular facts that only Giulio could

have known, Bruneri had God-knows-how known, intuited, too, stunning somewhat the witnesses. And, the wife — this wife, who fought hardest, harder even than Bruneri himself to effect the "substitution" — had to have had the last word, understandably: she would have known, wouldn't she? "I have lived with him [Bruneri] in intimacy," she declared, and, truly, what better proof of love's identity is there than the intimate embrace? All seems to be flowing into mythological grooves, as usual. As if becoming a Euridyce in reverse, she made no mistake this time around; she never looked back from the moment she caught sight of (what she possibly wished was) her (psychopathic) Orpheus at the gates of a bedlam. But, truly, can love-making be the ultimate confirmation of the lover's name? Still according to myth, was it not agreed that Psyche was never to gaze upon her lover's visage? And it was Eros, Love itself, that made love to her. To Psyche, *the psyche*...

What did those two eventually reminisce about when they held hands?

It is a true story, which Sciascia relates, with the razor-sharp and magnificent terseness that is his trademark, in *Il teatro della memoria*, one of his "inquests," — reconstructions of bizarre public affairs from chronicles and archival documentation.

What is the moral of it?

That we are nothing. We are mass-men, faceless, unknowing, and perfectly interchangeable. Systemically replaceable, each and everyone. "So highly mutable is life in each and all of us," Sciascia comments, "that when 'forms' imprison it, fictions become reality." [12, p67] According to the catechizing self-hypnosis of modern Liberalism — the dominant credo of the age —, we are ego-driven creatures with given, a priori "preferences" and more or less "strong personalities." Nothing could be falsier. We are beings far disconnected from the ego, we are a blob of animal life stripped into a tangle of instincts, as C. G. Jung would say, which we painstakingly attempt, through the course of our lives, to mesh and bundle together in the illusion that we are one, that we are whole, by saying "I," "me." Precisely because we are so soluble, shifting, paper-thin, disassembled, and anonymous, all we do when interacting with one another is go through a collection of masks, and a list of pre-recorded catchphrases. Life's proverbial ups and downs, crises, "transformations," and moments of perdition are all symptoms of a general

sense of existential inconsistency, which fuels this (often circular and absurd) chase of meaning, of self-identification. Beings so psychologically, so internally disaggregated, as mass-humans are, are perforce in constant need of moral, ethical admonition. And fads.

Histrionic ability in this space is clearly a key asset, as shown, indeed, by the terrific performance and life-adventure of our Bruneri. In truth, than diligence the impostor's homework rather demands intuition: it is a mask's shape and features that he has to study and memorize, before choosing, as in this case, to fasten it upon his own head indefinitely. Through experience and the juju of his practical madness, Bruneri had acquired such a fine knowledge and understanding of the posology of modern life's vacuity, that, re-born a true delinquent (after the war), he nonetheless managed to pour himself so completely into the standardized mold of "the professor" that he made Canella's moral and religious ethos *genuinely* his own. A studied exploit of impersonation brought about a complete "moral reversal": through an act of artistic mimicry, the psychopathic chameleon had absorbed so successfully the full countenance of the other as to assume, in deed and word, all the moral connotations of an "honest life." And this is to infer that the transformation may be complete, i.e., believed by the impersonator himself, when the new husk and the space surrounding it are felt to be *stable and secure*: at that point, the dissembling psychopath in all of us may go on believing that he is, in fact, Canella, i.e., the more fortunate "other."

As part of the western (movie) audience we tend to be much more familiar with the (pulp) criminological scenario in which the psychopath lives deceitfully his whole life, keeping his gruesome mystery to himself, while preying serially upon unwitting victims. In keeping with the above observation, such would, then, appear to be the pattern when the social environment stalked by the chameleon is neither stable nor secure. But assuming that the degree of blood-morbidity affecting the psyche of the impostor is not high, one may otherwise expect him to stop vampirizing others so soon as he identifies a cocoon in which he feels he may take comfortable cover, for life. As Bruneri seems to have done. However that may be, because the mechanisms of the psyche are still too mysterious, there is

no intent whatsoever to generalize here. Suffice to say, then, that Bruneri, like most of us, in fact, could fake virtually everything: charm, wit, erudition, glib, *mondanité*, and *true* moral deportment. When tested, he floundered a bit on the intellectual plane, [11, p66] but could by no means surmount his total musical illiteracy and technical non-proficiency. So, part of the moral would seem to be that, possibly, *music* is the only, the realest, most inimitable of all life-materials: a touchstone of self-awareness.

People have subjective images of themselves that are illusory. They miss the objective reality entirely and are unable to give an honest description of themselves that would be recognizable by their friends and acquaintances. This sort of existence, literally and strictly, is a kind of sleep-walking, sleep-talking, and so forth, and it demonstrates a passive and meager waking existence, which we cannot fail to admit as objectively abnormal. [12, p. 92].

### The Functionalism of the Mafia

La mafia è un'associazione per delinquere, con fini di illecito arricchimento per i propri associati, che si pone come intermediazione parassitaria e imposta con mezzi di violenza, tra la proprietà e il lavoro, tra la produzione e il consumo, tra il cittadino e lo stato.<sup>9</sup> [13, p. 42].

We know it, the Mafiosi perform an essential duty for so-called "conventional" —i.e., rigidly oligarchic & caste-sedimented— society: *they manage the plebs*, which generally is a non-tenacious, superstitious and impulsive creature. [6, p. 75] They manage it ruthlessly because they *despise* it. And, as far as efficiency is concerned, this is how it should be because the psychological basis, the "chrism" of power, is indeed contempt (*il disprezzo*): or, to be precise, contempt legitimized by iniquity. And ordinary people "thirst for iniquity." [14, p. 82].

Between opulence and misery, the Mafioso establishes his interstitial, yet pivotal, position by keeping enough or no thieves whatsoever

<sup>9</sup> The Mafia is a criminal organization, devoted to the unlawful enrichment of its associates, which obtrudes itself by violent means as a form of parasitical intermediation between property and labor, between production and consumption, between citizen and State.

(depending on the grandee's rank and condign level influence) from trespassing onto seigniorial property, by negotiating and brokering the restitution of stolen *roba*, and by carrying out various deeds of intimidation on behalf of the self-same lordly class. Nowadays, with a similar degree social opportuneness, the functionalism of the mob summarily consists in the management of three essential societal functions: narcotics, gambling, and prostitution —with a political add-on, as we shall discuss.

The mobster, though sanguinary and “*religiosissimo*” [8, p. 112] (which is to say, perniciously superstitious himself —“devout” [10, pp. 293–331] —, like the sheepish plebeians he professes to loathe), effectively performs, in this honorary guise of ghetto-pontifex, a key societal role. He is the “good” mobster, a chief in the proper position and chain of command. Not lacking in generosity, courage and smarts, he lights up intermittently with a “flicker of juridical conscience.” [9, p. 197] By enforcing “a bloody and primitive code of law,” he brings order and peace in “a putrid and immobile reality.” [8, p. 67, 110]

And to top it all off, the Sicilian Mafia-chief is thrown upon history not without modern expectancy, for he differs in one important respect from the politicized brigand who, in the former Reign of Naples, fought the constituted order for the dispossessed sake of the most retrograde alliance of ecclesiastical and baronial power. Unlike the monarchist *bandito*, the Sicilian Mafia-chief, for his part, managed to find an economic entente with the industrializing elites of the North, Italian and otherwise. This he did by gradually occupying the place that once been that of the blue-blooded “leopards” (*i gattopardi*) of the aristocracy. Through usury and all manners of more or less defiant expropriations of nobiliary tenure, he succeeded in fashioning himself into an agrarian entrepreneur, one who could thereby harness the fortune of his agricultural capital to the promising outlets of the European markets. [5, pp. 76–78] He is thus a *bourgeois sui generis*, a bourgeois of “the second degree,” so to speak: savage, yes, yet nonetheless politically and historically *aligned*.

To one of his lieutenants, who, in a rare moment of conscientious political reflection, wondered why, after having successfully sided in a

historical coup (the “revolution”)<sup>10</sup> with the Liberal faction against the royalist incumbent, they — “the honored society” — would not dare, or deign to ameliorate, even by a little, the sustenance of the “people,” Don Gioacchino Funciazza in Sciascia’s play, *I Mafiosi*, barks out in a furious reply: “There is no such thing as ‘people’! There are only persons!” The mere suggestion of “the people,” as a needful object of dutiful obligation, fills the don with an irrepressible, bilious urge to spit.

“Good” as he might have occasionally been for a “putrid” environment, the Captain of the Ghetto remains for all that a survivor: to him, as for Jeremy Bentham, or the late Dame Margaret Thatcher, society does not exist; nor does *humanity*, for that matter. What is he to make, indeed, of the annoyingly alliterative pairing of “human” and “humane”? As if the etymon were itself self-evidently suggestive of Man’s instinctive bent to empathize with and commiserate his fellow human-beings, when the truth, the don avers, is exactly the opposite: “And what does ‘human’ mean?” he apostrophizes provocatively, “If it means something of man, of men, then I will tell you that there is nothing more human than robbing your neighbor blind.” [9, p. 161] The philosophy of “la roba,” again.

A natural-born organizer, a Social Darwinist, and a visceral Liberal to boot, the Mafioso, thus promoted to the rank of class-B entrepreneur with the “revolutionary” effacement of old dynasties by modernity’s new elites, not only retains *ex officio* the tutelary title of gatekeeper of the slum, but, by dint of it, acquires new preponderant influence. He recognizes that in the era of mass theatrics, mass movement, and *mass-men*, the institutional hold he has on the (votes and opinions of the) quaquaraquas has projected him and his from mere bouncers of the aristocracy to king-makers. If it is so, concludes Don Gioacchino, it is pleonastic even to speak of the “(honored) society” as such: after the Liberal swerve, the Mafia no longer exists as the unavowed, semi-clandestine security corps of the nobility —namely, as something distinct from the traditional body of “the reign.” It is now part and parcel of modern society. [10, p. 204, 212] Not (part of) the “deep State,” but (of and in) the State, *tout court*.

<sup>10</sup> The “revolution” by which the House of Savoia, the “modern” faction, toppled the old dynasty of the Bourbons, in the early 1860s (for the “unification” of Italy).

## Society & Power

*Cumannàri è mègghiu ca fùttiri*<sup>11</sup>

Sicilian proverb

Society is essentially animated by a tripartite core of aristocracy, plebs and literati: [8] in modern parlance, elite(s), mass, and intelligentia. In Sciascia's fictionalized and skillful reconstruction of Sicily's attempts at "independence" in the 1700s, [8], [15] the entities embodying the arch-immobilist, "decadent," and defeatist core of the isle are Spain and the Church. Empire and Ideology.

The masses squat at the bottom of the pyramid. Crude and appetent, they crave public crucifixions; and though they sympathize with the petty thief, they will not forgive sins of *lèse-majesté*: forever crippled in the spirit, they remain arch-conservative to the death — theirs and especially that of the heretic, whose life "the System" ritually excoriates as often as possible for their sovereign voyeurism (i.e., the lust for public executions).

From the depths of this base humanity — street-vendors, cobblers, carpenters, porters, petty artisans, and day-laborers — the elites draw the *pugnalatori*, the "knifers," whom the subtle minds of the State-agencies' political bureaus eventually organize into "brigades" for the contingent purpose of "creating panic" when the situation demands it. "The reason for being [of the *pugnalatori*], their function, and their 'service' consist exclusively in the shifting of power ratios — of established powers, that is. And, one may add, in shifting them not by much." [17, p. 138]. To recount one juicy instance, such panic-inducing brigades of knifers were thrown into play one fine October day of 1862 in Palermo, the capital. On that occasion, the city lived through a flurry of random stabbings, which, according to the authorities' report, appeared to have been committed with a view "to attempt directly the destruction and subversion of the present form of government." Sciascia assembled a narrative of the event by parsing the official documents.

The mechanism of terror is failsafe: if caught red-handed by mischance, the masterminds may always deny culpability by claiming they were merely playing the *doppio gioco*, all the better to

infiltrate the terrorist cells — or, by claiming that the maneuver was part of a general drill under the responsible and all-seeing watch of the police and general Intelligence, namely by fluttering the classic "false-flag" denial. At the other end, by grace of their spiritual debilitation and consequent ultra-conservatism, the dregs are loyal to their patrician commissioners, and, therewith ready, if apprehended by their masters' factional enemies, to die on the gallows without squealing. They are men of honor: they will never talk; they shall never implicate the "princes": this is *omertà*, the honorable code of silence. And they are not afraid of death either. It thus is understood that, in the event of their honorable dispatch, the absentees are bound to provide for the knifers' families. [18, pp. 20, 23, 28, 76] Noblesse oblige. It may be noted in this respect that although the knifers' tenacity might be low, their composure in the face of *death* by execution — by far, the noblest renunciation of greed — leavens the bi-dimensional outline of their truculent persona into a more enigmatic composite of brutality and heroism — a compound (low-tenacity, barbarism plus proneness to, or at the very least, fearlessness in the face of, death) which has not infrequently exercised a certain attraction on commoners and sophisticates alike. This is a notorious phenomenon that we will address in the final section.

The State. In any event, *pugnalatori* and false-flag ops aside, the average citizen is and remains, by definition, a cuckold ("il popolo è cornuto"). [8, p. 53] And the one to cuckold the people is *power* itself, as wielded in sequential order by: 1) priests, 2) politicians, and 3) Mafiosi. Of the latter, we have said. For their part, priests and politicians are, by definition, the governors of the State-Church tandem: or rather, the politicians have inherited, through and in the State, what used to be the Church's power of inquisitorial intrusion. Until 1783, when it was abolished, the Tribunal of the Inquisition had been strong in Sicily. To Sciascia, the Inquisition was the most abhorrent, arbitrary, and sinister form of prerogative ever exercised by humans in institutional form. Behind the demoniacal hypocrisy and demented fanaticism of its sanctimonious canons lay a cruelest apparatus of repression, buttressed by an efficient intelligence network. This last has bequeathed to modern Liberal States the category of the *familiare*, [6, p. 15] namely, that of the high-level informer — a

<sup>11</sup> Being boss is better than fucking.

position, as noted by the Spanish chroniclers of the era, fancied by the totality of “*los ricos, nobles, y los ricos delinquentes*.”<sup>12</sup> The low-tenacity, low-class obverse of the Inquisition’s “familiar” is, of course, the cops’ *confidente*: [8, p. 21] traditionally, the supergrasses are former peasants, previous offenders, who earn their keep by collecting usury on behalf of the *galantuomini* (the gentlemen of leisure), and keep afloat by ratting on small criminal fry to the State’s bloodhounds. The *confidente*’s, admittedly, is an uncomfortable role, pinioned as he is by the contractual allegiance to the nobility, the hatred of the fellow-*gueux* whom he duns, the potential reprisals he may expect from those he burns, and his “treasonous” services to the police. Along with the *bandito*, the *confidente* serves as the lord’s poverty-stricken, low-tenacity ancillary. Unlike the *bandito*, however, because he ekes out a miserable living by double-crossing other *misérables* like himself, the *confidente* is greedily attached to life, so much so that the only human thing he knows is an agonizing fear of death, in which he squirms daily, until death, finally, with retributory punctuality, strikes. [8, p. 29].

Priests in “Catholic” Sicily are for the most part “rapacious, ignorant, and substantially atheistic.” [4, p. 128]. The moral and cultural limitations of the Sicilian clergy are, in fact, fitting considering how fantastically irreligious Sicilians are: “It is hard to find in the soul and in the culture of other peoples,” says Sciascia, “a vision of life so rigidly and coherently in opposition to the evangelical message. We may even add: no people in the world, among those officially denominated as Christian, has possibly ever wrought from within such a total disaggregation of the Christian values.” [5, p. 195]. The fold has the shepherds it deserves. And so it goes with the minorities. Good folk have their priests too, heroes, indeed, who occasionally have the audacity to say no, the audacity to rebel, as did one Angelo Ficarra, bishop of the diocese of Patti (northeastern tip of the isle). In the founding period following the years of transition from the American invasion of Sicily (7/1943) to the Liberal-electoral triumph of the Christian-Democrats (4/1948) — who came to be closely identified with the Church and the new imperial dharma of the United States—, Monsignor Ficarra refused to “bend to the shady and

insane pretenses of three or four megalomaniacal priests, seconded by some exalted laymen and an equivocal demimondaine (*donnina*).” In his comment to the epistolary between Ficarra and a high prelate of the Roman curia, Sciascia notes that Ficarra misjudged, failing to recognize that these are the things — megalomania and exaltation — that, the world over, drive the contest for the acquisition of *power*. This was politics, proper. As Ficarra, however, wanted to act according to conscience, he configured his pastoral activity, which is the priest’s politics, as the most perfectly “un-political” testimony a man could profess. [19, pp. 35, 41–42, 51].

In Liberal modernity, i.e. in “democracy,” it is the politicians, as said, that have taken over in the name of the State the bureaucratic machine of Catholic Spain. The “Sicilian priests” themselves have departed. They have been reborn as publicists and academics — the near totality thereof being just as, if not even more than their sacerdotal predecessors, rapacious and ignorant. Their labor is mostly one of propagandistic “interpretation”: in sum, they falsify the record, as a matter of routine, in order to justify, or better, to “legitimize” the privileges of the caste from which they themselves have secured, or have striven to secure, tenure. This is so because, as a matter of fact, “history does not exist.”

La storia non esiste. Forse che esistono le generazioni di foglie che sono andate via da quell’albero, un autunno appresso all’altro? Esiste l’albero. Esistono le sue foglie nuove: poi anche queste foglie se ne andranno; e a un certo punto se ne andrà anche l’albero: in fumo, in cenere. La storia delle foglie. La storia dell’albero. Fesserie! Se ogni foglia scrivesse la sua storia, se quell’albero scrivesse la sua, allora diremmo: eh sí, la storia...Vostro nonno ha scritto la sua storia? E vostro padre? E il mio? E i nostri avoli e trisavoli? Sono discesi a marcire nella terra né più e né meno che come foglie, senza lasciare storia...<sup>13</sup> [16, p. 59].

<sup>13</sup> Do they perchance exist, the generations of leaves that have departed from that tree, autumn after autumn? The tree exists, as do its new leaves: eventually, even these leaves will go; and so will tree itself, in smoke, in ashes. The history of leaves, the history of the tree. Nonsense! If every leaf wrote its story, and so the tree, then we’d say: well, yes, history...Your grandfather, has he written his story? And your father? And mine? And our distant forefathers?...They have gone down to rot in the dirt, just like the leaves, without leaving any history behind...

<sup>12</sup> The wealthy, the noblemen, and the wealthy delinquents.

This rumination is recited by the protagonist of *Il consiglio d'Egitto*, Don Giuseppe Vella — a fictional projection of a crafty Maltese deacon risen to infamous celebrity through sensational forgeries of Sicily's ancient chronicles (1749–1814) —, whom Sciascia resurrects in a finely chiseled historical reverie of the days surrounding the 1782 conspiracy of an illuminist lawyer, Francesco Paolo di Blasi, against the Bourbons' regime. The moral intimation in this case seems to be that historiographers and (social) scientists, both, are makers of narratives, and narratives are necessarily impostures and imbroglions since “every society creates the sort of imposture that, so to speak, suits it.” Therefore, the vibe pulsating through the new priesthood is perforce acrimonious, not only because, as Kissinger sneered, the stakes are so small, but more so because the work of daily falsification required of them is at best an exploit of mediocrity. And the fight among medians can only be waged in the tightest of margins. This holds as a rule, then, except for the rare Vellas, who, at least take the trouble to dream up entire codes from scratch, expending therefor far greater loads of energy and talent, and deserving thereby the higher honors on account of more meritorious (corrupt) work. The conclusion Sciascia draws from this existential assemblage of power and discourse is straightforward: it is precisely because *culture* itself is “more or less consciously, an imposture”; it is because it is “a tool in the hands of the baronial power, and thus a fiction, a falsification of reality, of history” that more or less grandiose documental forgeries of the “record” always have a chance of succeeding. If the drafting of history weren't itself a fakery, it would be impossible to fake it; [18, p. 126] likewise, why refrain from cheating “the system” if the system itself were not set up to cheat you in the first place?

Such, then, is society: a tyrannous circle of high-tenacity princes and bureaucrats commanding, and commandeering resources from, a mass of ferociously devout toilers, whose three effluents are: knifers, stool-pigeons, and quaquaraquas. In the spiritually under-developed psychic space, the Mafiosi mediate between these atrophied swarms and the mighty gentlemen of leisure, while keeping up their game of brutal hostility versus the half-men and assfucks of the mid-level State apparatus of repression. This last, in turn, is a

juridical figment erected for the protection, and in the name, of the middle-class, which, though inhabited for the most part by half-men, is the (ever-shrinking) breeding-ground for heroes, that is, high-tenacity benevolent, compassionate types.

A gung-ho pro-Enlightenment Gallicist, mad with passion for Voltaire and the *philosophes*, Sciascia thought Reason and the word of the Law the be-all and end-all of (social) life. Sentiment, triggered by reason alone made it clear to him and all moderns of his ilk that there is no sin beyond lying and wishing the suffering and humiliation of others. A creed so linear knows no hell and finds everyday its Paradise in the city of Paris [20, p64] (truthfully, that alone makes Illuminist conversion worth considering...). For the educated Sicilian, it so seems that the mythologizing powers of attraction have their residence in France.

Therefore, prototypically, heroes are Paris-adoring bourgeois who swear by logic; but they may also be (exceptional) priests who believe in God (God forbid), or aristocratic music enthusiasts— like that eccentric and Mozart-fanatic, Baron Pisani, who threw himself body and soul into the sufferance of “madmen,” and rose to international glory, it was said, “for establishing in the mid-XIX<sup>th</sup> century the most advanced mental institution of its kind in the most backwards region of the West” (Sicily, that is). [5, pp. 69–72] In Sciascia's universe, conscientious and capable detectives, a few magistrates, lawyers with ideals, physicians and well-traveled artists, [19, p. 40] and, exceptionally, the erudite farmer, are all plausible candidates to the cult of heroicness, which, as a matter of fact, is more a Calvary than a gentle trail of initiation. The loneliness and isolation of Sciascia's hero symbolizes in simple, classic fashion the challenge, the perennial difficulty encountered daily by the cultivated men of the “half-way class” as they struggle to enact to the best of their often limited abilities the compassionate principles that animate them in a world, “Sicily,” that thwarts them from all quarters. Squeezed between the conservative inarticulateness of quaqua-ra-quacks from below, and the overmastering menace of the elitist paymasters from above; not knowing how to break through to the ones, who are more barbarized by the minute, and in constant, blackmailing subjection of the barbarizing others, the bourgeois ends up backstabbing other no-less-pusillanimous *clerics* ever more frequently.

Therefore, the middle-class man, hampered to boot by his own cuckolded double, obeys the directives of the higher-ups, complying, and forgets about the rest of humanity altogether. The impulse to rebel is thus virtually suppressed. Yet when it is authentic, it is a midwife to greatness. Potentially a hero, the middle-class individual chooses to conform, instead, by tossing out his better half, and so spends the rest of his life hallucinating that he is whole.

Finally, beyond masters and slaves, the third buttress of conservatism, is the rife middle-class traitor, the *literatus*: the scholarly falsifier of history, who, deceitfully, employs prose to fashion new gospels *ad usum delphini*. He is the academic hack, the fabricator of more or less finely edited potboilers and miscellaneous discursive junk, which is dished out, in “schools,” to budding men and women in perfunctory preparation of life’s absurd pantomime of power. Nowadays, as modern intelligentsia, the new academic Liberal priesthood, to which the Anglophone and globalizing elite entrusts the souls of its mid- to high- level recruits, thereby performs, yet with indescribably greater sophistication and *savoir-faire*, the catechumenal function that had once been that of the Pro-Spanish Inquisitorial arm of the Church.

And, in conclusion, all of the above, modernized and re-elaborated, is presently subsumed under the ominous designation of “democracy.” Democracy, which, once again, in the peerless phraseology of the Mafioso is “a beautiful invention, something entirely made up, by people who can shove one word up the ass of the next and all the words up the ass of humanity.” [8, p. 54].

### Justice

A Sicilian proverb says that “La furca è pi li poveri, la giustizia pi li fessi” (the gallows is for the poor, justice for suckers). [21], [126].

Speaking of justice in Sicily *c’est faire du mauvais esprit*; it is a tasteless joke. It is unwarranted to do so, however, not because justice exists, in fact, elsewhere —say, in the empyrean of Paris or, say, Scandinavia (?)—, but because in (modern) “Sicily” justice is altogether a different thing from the hypnotizing mantras of conventional ethical injunction learned in school. This is so because moral compendia and primers of virtuous (or unvirtuous) conduct make the mistake of assuming, good or bad as he innately might be —though

overwhelmingly bad he certainly is, and in “Sicily” it is a sin to believe otherwise—, [26, p. 29] that Man is awake. In “Sicily” all are asleep; all are asleep with the possible exception of the heroes, who, in any case are so few and far between, and so cosmically ineffectual as to pose no impediment to a universal state of spiritual free-fall.

If one had been convicted, and served time, on false charges, what would he say to an investigator that has come to interrogate him in connection to the mysterious assassination of the very judge that condemned him?

“Sì, ero innocente...Ma che vuol dire essere innocenti quando si cade nell’ingranaggio [...]?”

“Ma non tutti sono innocenti” disse [l’ispettore]. “Dico: quelli che capitano nell’ingranaggio.”

“Per come va l’ingranaggio, potrebbero essere tutti innocenti.”

“E allora si potrebbe dire: per come va l’innocenza, potremmo tutti cadere nell’ingranaggio.”

“Forse [...]”<sup>14</sup> [15, p. 29].

We have heard this before: no one is really innocent. If no one is innocent, the judicial apparatus seems to function as some kind of sacrificial altar that demands a holocaust of time-blood in the form of more or less violent punishment for any manifestation of intolerable deviance. It is as if humanity were one giant organic ball of flesh whose weaker limbs and useless protuberances (the poor and the suckers), *when resisting coercion into the constricting structure of a foreign encasement* —the apparatus of power broadly defined— must undergo some kind of bodily and/or psychological Procrustean mutilation. And here is the “surprise”: from the (meat-) grinder’s standpoint, the specific identity of those getting the axe it is a matter of perfect indifference so long as “a fixed quota” of soon-to-be-amputees is regularly dragooned to the courts and variously dispatched through the adjudicating body. And that is because, as we have learned from the story of Bruneri, deep down, as “Sicilians,” we are replaceable nobodies, mere mouthpieces.

<sup>14</sup> “Yes, I was innocent, but what good does “innocence” do when one falls into the meat-grinder [of the judicial system]?” “But not all of them are innocent” said [the inspector]. “I mean: of all those that have been thrown in the meat-grinder.” “As the meat-grinder goes, they could all be innocent.” “Then one could say: as innocence goes, we could all be thrown into the meat-grinder.” “Maybe so [...]”

The quibbling Mafioso, who, with Liberal disingenuousness, spoke of the inexistence of society, clearly, did not, could not, go deep enough. The wrap-up, in this regard, is better left to a high priest, such as the personage of the President of the Supreme Court in *Il contesto*, who, twisting the Liberal aphorism into its nihilistic negation, affirms that individuals themselves are non-existent; and because there are (virtually) no ego-conscious individuals in *modern mass-society*, there can be no individual responsibility either: “individuals” make up an aggregate, society, that is tangible enough, whose substance, however, is de-individualized soullessness. On the plane of raw barbarous interchange, societies can be said to amount to diverse collections of masks, and modulated vocalisms to match, which, combined in more or less numerous and assorted patterns, make up what we refer to as cultural expressions. Many of them are universal. There remains, then, the lava of barbarous violence that intermittently squirts through these masks —that is why it is said that, outwardly, suspect and culprit differ but little (*Paulum distare videtur, suspectus vereque reus*,<sup>15</sup> Ausonius). And to obviate these outbursts, there is *the Law*: “the Law,” sentences the ethereal Jesuit of Sciascia’s 1974 novel, *Todo modo*, “is the invention that we are all guilty.” [3, p. 102]. Therefore, since apprehending and trying every single culprit at all times and in all places, is, de facto, impossible, one might as well extend to peace-time society the war-practice of “decimation” — ten of yours in reprisal for each of mine killed.

[Il mestiere di giudice, di poliziotto] presuppone l’esistenza dell’individuo, e l’individuo non c’è. Presuppone l’esistenza di dio, il dio che acceca gli uni e illumina gli altri, il dio che si nasconde: e talmente a lungo è rimasto nascosto che possiamo presumerlo morto. Presuppone la pace, e c’è la guerra...[...]. Questo è il punto: la guerra [...]: e il disonore e il delitto devono essere resituiti ai corpi della moltitudine, come nelle guerre militari, ai reggimenti, alle divisioni, alle armate. Puniti nel numero, giudicati dalla sorte.<sup>16</sup> [[3, p. 99].

<sup>15</sup> Small difference there seems between the real and supposed guilt.

<sup>16</sup> [The profession of the conscientious policeman] is predicated on the existence of the individual, but there is no such thing. It is predicated on god, of the god that blinds the ones and enlightens the others, the god that likes to hide: and he has remained hidden so long that we may presume him dead. It is predicated on peace, and yet we’re at war... [...] That is exactly

A nation of irresponsible nobodies, whom the State’s tribunals, mechanically and indiscriminately, obliterates in droves, is a society alright, yet one of insects. This vision leaves nothing to the imagination; the argument Sciascia lends to the chief magistrate is a naked ode to power. And the deceiving simplicity of this lean peroration of brute force, expounded with aplomb, is a key to the deeper mysteries that lie in the “terrifying” [1, p. 29]. soul of the Administration’s powers of castigation, especially as they relate to the *sovereign* notion of “bloody restitution to the multitudes” (public opinion demanding executions), and to the factual inexistence of “real” individuals. Not surprisingly, it is to God that the President of the Supreme Court inevitably returns when alluding, in conclusion, to the effective sacredness of his role in the State’s apparatus of repression. Wherever power is resisted, he avers, wherever the legitimacy of might is insanely questioned, authority “feels” the universal exigency to use force *criminally* in order to beat down these delicts of *lèse-majesté*. The coda of the argumentation is perforce theological: it is exclusively by overturning the Law into violent, i.e. criminal, repression of grave insubordination that men grant God access, the only access there is, to their world. And this god, concludes the high magistrate, is clearly not the [god of Gnosticism] that is fain of hiding himself. [15, p. 100].

### Simple Stories

S.: an unidentified Sicilian borough; late fifties, January 16<sup>th</sup>. It is 6:30 in the morning, the bus for Palermo, jam-packed, is about to depart from the main square. “One moment,” says the ticket agent to the conductor: a man in a dark suit is running toward the bus-stop. As the doors re-open to let him board, two shots ring out. With a swoosh, the man collapses, dead — ambushed, as it were. The Carabinieri are immediately on the scene. None of those present seems desirous to talk, but it does not take long to learn that the victim, Salvatore Colasberna, is the president of a construction coop. He was clean, and an honest builder, who did serious work, very much unlike the totality of his

the point: war...: dishonor and crime must be restored to the bodies of the multitudes, much like in war they are restored to the fighting regiments, the divisions, the armies. Punitively mown down in number, judged by fate.

peers (Colasberna being the proverbial exception), who, by default, rely, instead, on “protection” to erect ramshackle edifices on lopsided asphalt. A Sciascian hero *par excellence*, and a ‘continental’ from the North, Captain Bellodi (of the Carabinieri) is in charge of the investigation.<sup>17</sup> Soon after the murder, he receives an anonymous letter, an account tasting strongly of veraciousness: in brief, it relates how Colasberna had stubbornly refused to join the local construction consortium, which is “supervised” by the mafia. The supervision does not simply entail “protection,” but it gives the protégés a steady pro-rata entitlement to State contracts, and a guaranteed participation in all urban and zoning projects of the region, which the Mafia is deputized to manage by way of its functionalist connection to the political elite. Colasberna was prideful, proud of his professionalism and honest attention to detail: he was the type that would not listen, that would not bend. He would not listen when a don came early on to threaten him through that typical *dire sans dire*, which like the wrong side of an embroidery, is the undecipherable tangle underlying a set of unambiguous patterns; nor would he bend when, six months previously, a bullet purposefully missed him, not by much, late one night, as he climbed his doorsteps, back from work. To validate this scenario and corroborate motive, Bellodi has convened to the station Colasberna’s brothers, who are also his partners; except for Giuseppe Colasberna, the brothers do not utter a word, nor does Giuseppe, even remotely, follow the captain in this sort of considerations. They are all too scared. Bellodi finally dismisses them after obtaining a writing sample from each, which reveals, in fact, that Giuseppe is the author of the letter. All the while, a woman has been waiting outside his office to inform the Captain that her

husband, a landscape gardener, has gone missing — gone missing, that is, the very day of the murder. The captain orders a search.

Meantime, in Rome, word of Bellodi’s zeal has climbed its way up to the higher reaches of the political establishment. As they ogle a hat-check girl unstitching her dress with a piercing stare, a Mafioso, in Rome for “business,” and “his congressman” confabulate in a chic café: ‘This Bellodi says the one, ‘has been in charge for a mere three months and is already doing damage; now he is even snooping into the region’s zoning contracts...’ ‘We’ll see what we can do’, responds the other.

For Bellodi, the next step is to tap the local informer. Usually, after a crime, this last shows up at the station *sua sponte*; this time, however, they had to summon him: Colasberna’s murder is evidently of the “heavier” sort. Calogero Dibella, aka *Parrinieddu*, Sicilian for “lil’ priest,” earned the moniker for his glib tongue and evergreen hypocrisy. A highwayman in his youth — “poverty made me do it” —, the delinquent went semi-“legit” after doing time by taking up the trade of debt-collection on behalf of usurer-patrons charging 100 percent. Navigating gingerly between the shoals of the old mob and the bootlegging reefs of the rising clans, Dibella thought he could take on the additional task of *informante* to gain semi-impunity for his bruising labor of “receivership.” Altogether, he knows it: he plies a dangerous routine. Stool-pigeons are tragic figures in the realm of low-tenacity. It is cold sweat he is now sweating. Sitting before Bellodi, he speaks the most to say the least, as men of his trade always do, especially when the stakes are high (as they gradually appear to be). Of course, Bellodi is not deceived, though he nods, periodically, pacing, as it were, the beat of that *fearful* rush incessantly racing through *Parrinieddu’s* veins. The captain persists: could it be, then, that the murder is directly connected to the local mafia’s pork barrel politics? And if so, the captain continues, “all I need is the name of someone who gave Colasberna a few hints...”

Unlike his predecessors, Bellodi, the northerner, is gentle, charming; he speaks softly, respectfully, and unthreads the ropes of the interrogation with a congenial directness that disconcerts, spins Dibella about. So much so that he finally, inexplicably slips, by blurting out two names: Ciccio La Rosa, he says, or Saro Pizzuco. The first name is obviously a red herring, but the second, well, the

<sup>17</sup> The character of captain Bellodi was inspired by a true major of the Carabinieri, the Piedmontese Renato Candida, who served as commanding officer of the base in Agrigento in the fifties. Candida and Sciascia became personally acquainted in the summer of 1956, and developed a strong friendship, which survived Candida’s “opportune” transfer, not long thereafter, from Sicily to his native Torino for having written (and published thanks to Sciascia himself) an “embarrassing” book on the Mafia (and its political contiguities). When Sciascia’s novel was published in 1961, Candida, invited to comment on it, noted that while the Mafiosi were depicted realistically, the personage he inspired, Bellodi, was not: too idealized, in his view. Candida died in 1988, a year before his friend [14, p. 45, 162].

second is the link of a chain, which, one hierarchical link at a time, leads straight to God almighty. 'Tis done, *Parrinieddu* is a walking corpse.

Meantime, in Rome, the murder of Colasberna is now at the center of several congressional inquiries, all of them solicited and staffed for the most part by Communist MPs, always keen on harassing the (*sottinteso*: Christian-Democrat) conservatives by pouring mounds of salt, relentlessly, on the open gash of the "Sicilian question."

"His Excellency," the unnamed, top-level, Sicilian *referente* of the Mafia in the capital, is giving instructions to two members of his staff; the situation is crystal clear: this Bellodi, what with his past as a Resistance fighter, is obviously a crypto-Communist, as well as a prejudiced northerner, who right off the ferry, has fleshed out his northern prejudices by painting "Mafia" on every wall; we're understood: this Mafia thing — the urban legend of a secret organization with its fingers in every pie does not exist; it is conspiratorial gibberish, paranoia; we have got to nail the murderer in this Colasberna affair and enable the minister to chalk it up to some money-tainted vendetta or a crime of passion; *politics has got nothing to do with it*; so let's see if we can do something about this Bellodi: *ima summis mutare*,<sup>18</sup> do you understand Latin? Not Horace's: I mean my own.

The landscape gardener that had now gone *desaparecido* for five days is one Paolo Nicolosi — originally from the neighboring town of B.; he had moved to S. after his wedding. That day, at the same time the bus was departing for the capital, he had walked out of his home and packed the mule with his tools: they were waiting for him at a farmstead five miles away; he never showed up. Now, considering that Nicolosi had no trouble whatsoever with the law, and, therefore, that there was no reason to suppose his disappearance could have been a "settlement" in a larger feud, two other possibilities could be entertained. Either that Nicolosi had lost himself in some kind of honor duel — the ongoing affair of Nicolosi's wife with an employee of the local power company being public knowledge (Nicolosi, i.e., being just another "cornuto") — or, cuckold or not, that he saw something he should not have seen. In fact, Bellodi reasons, the gardener must have seen, *and*

*recognized*, Colasberna's killer, because the street Nicolosi lives on is the only way of escape from the scene of the ambush. Nicolosi's (pretty) wife is brought once more to the station: she relates how, that morning, her husband had momentarily returned to the house to fetch his cigarettes and told her — still in bed, half-asleep — that he had seen a man, an acquaintance, run down the street. A name, they ask? No, he mentioned a nickname. Which? After considerable pressure, they finally squeeze it out of her: *Zicchinetta*, after a Sicilian card game. In S., there is nobody known by that nickname.

But there is in B., Nicolosi's homestead. His name is Diego Marchica. Marchica has the standard resume of the Lombrosian delinquent of the (post-déco) South: break-in at eighteen (1935, convicted), and from then on, the open prairies of a life of crime: arson, armed robbery, illegal possession of arms, criminal conspiracy (1943, absolved by a US tribunal — no surprise there),<sup>19</sup> participation in armed gang warfare (captured in a shootout with the Carabinieri, convicted), homicide (actually a "contract," acquitted, 1951), and, in 1955, aggravated manslaughter (convicted). The psychological profile in his dossier describes him as an alert and most skillful delinquent, an assassin of absolute reliability, yet also as possessing a temper capable, when dunked in alcohol, of sudden blazes of brutality. Most important, though, is a report in his file which details how, recently, a Sicilian notable and parliamentarian had appeared at a political rally flanked on his right by a doyen of the local mafia and, on his left, by Marchica himself: a not so subtle hint that, with such friendships, the man might be hard to jolt.

Later, that evening, *Zicchinetta* is arrested.

Having seen Dibella acting squirrely not long before a sudden, and very much unwelcomed spurt of police activity in their borough, the mafiosi put 2 and 2 together and dispatch the informant to hell with a couple of bullets. Knowing what awaited him, though, Dibella takes his leave by ratting out one more don (by letter, mailed to Bellodi), a big one, as the final touch to his (sorry) existential canvas: don Mariano Arena.

<sup>18</sup> Valet ima summis, mutare et insignem attenuat deus: the divinity may turn the highest into the lowest, and diminish the proud (Horace, Ode XXXIV).

<sup>19</sup> This was in concomitance with America's endorsement and resurrection of the Mafia as an "anti-Fascist" auxiliary/ally within the larger scope of its invasion of "the Boot" in July 1943.

Bellodi now has three fish to fry: Marchica-Zicchinetta, and Parrinieddu's two "gifts": Saro Pizzuco, whom he has just taken into custody, and (God help him) Mariano Arena. The plan, initially, is to marinate each in solitary confinement so as to weaken resolve and provoke incertitude. Afterwards, Bellodi does the following. Arena, he momentarily sets apart. He then predisposes two interrogation rooms, one facing the other from two opposing wings of the station; adjusting the lighting, he makes sure that, from either room, one can perfectly see inside the other. Marchica is brought in, and Bellodi begins to grill him about Nicolosi, the gardener (who allegedly saw him bolting from the crime scene). While Marchica writhes with predictable recalcitrance, on cue, the station's sergeant suddenly busts the door open and says to Bellodi: 'he made his mind'. On the doorsill, behind the officer, ruffled and exhausted and plainly visible to Zicchinetta, stands Saro Pizzuco. As instructed, the sergeant withdraws as suddenly as he had materialized; only to reappear, shortly thereafter, followed by Pizzuco in the office opposite Bellodi's. Marchica can clearly see how the one talks, and talks, while the other takes notes. Zicchinetta panics: Pizzuco is squealing. After some time, the officer returns with what appears to be Pizzuco's signed confession. With his eye on Marchica, Bellodi smoking, and nodding to the officer: 'go ahead, read it'. The confession recounts how, a while back, Pizzuco did, in fact, tell Marchica of Colasberna's "offensive" (inflexible) behavior, and that Zicchinetta, to cleanse the affront, had offered at once to punish the constructor on Pizzuco's behalf. But being Pizzuco a man of upright and peaceable principles, he had obviously refused. Not long thereafter, so the story went, Marchica went ahead and killed Colasberna anyway. This much could Pizzuco confirm, when a few days after the murder, Marchica himself allegedly came to tell him that, recently, having to bump "someone" off, he then had been forced to bump off one more — the second target being, by implication, the missing Nicolosi. Than this Pizzuco claimed to know nothing more. Finally, that there could be a "higher" (viz. political) level of responsibility in the affair, he denied categorically. Bu this whole "confession" is a fake, artfully forged by the Carabinieri. In a flare-up of rage, Marchica instantly bites the bait. Let Samson die with all the philistines, it is now his turn to speak:

yes, in December, he did encounter Pizzuco, and this last had offered him 300,000 lira to waste Colasberna. A month later he did, and thereafter took shelter in Pizzuco's farm, whence this last, according to plan, drove him back to B. The hitch: as Marchica was racing out of town, Nicolosi had recognized him and called him by name. Of this he had told Pizzuco, who had reassured him, saying he 'would take care of it'. And that was that. Having thus wrangled a genuine confession out of Zicchinetta, Bellodi clinches the entrapment of this prisoner's dilemma by feeding it to Pizzuco, who, upon hearing it, screeches and seethes: 'blackest infamy; May the vengeful heavens blast Marchica and his for seven generations': of course, he knew Zicchinetta, superficially, that is; and had always kept him at arm's length, knowing what he's worth; the story of the contract he allegedly put out on Colasberna is pure madness; true, he had given the constructor advice, friendly advice; nothing more. The phone rings on Bellodi's desk; the captain listens, hangs up, looks at Pizzuco: 'let's start over'. 'Start over?' 'Yes, they tell me they have discovered the weapon that killed Colasberna, a sawed-off gun; they found it in the hands of you brother-in-law just as he, following your instructions, was about to get rid of it — in a cavernous area nearby, where, most likely lies buried Nicolosi's corpse as well. You can either plead guilty for commissioning, via Marchica, a double murder, or exonerate the latter, by confessing to both killings'. Pizzuco, fast on his feet, shifts gears, opting for a third preordained version, which, lo and behold, differs from the Carabinieri's fake but for a few minor aspects — namely that Marchica had asked to spend a night in Pizzuco's country-house to take care of some business the following day, and obtained permission to use a rifle he found therein for going hunting early the next morning. Too trusting for his own good, Pizzuco had suspected nothing, not until he was arrested; thereupon he had instructed his brother-in-law to dispose of the weapon. No mention whatsoever of Nicolosi (the variation), and none, of course, of higher complicities (the taboo). Bellodi has nevertheless ensnared two hawks with one hoax.

The news of don Mariano's capture hits Rome like a seismic shock. Papers have even spalshed on the front page an ancient photo of one of the Republic's kings side by side with Arena himself — mighty imprudence (to have let the paparazzi so

close) — and what an easy gift, all of it (photo & arrest), to the Communists (!). On sudden alert, the apparatus moves forthwith to control the damage: for one, Bellodi's definitely got to go; tactics-wise, there is only course: provide Marchica — the first link of the chain — with an alibi; after that, the prosecution's case may easily go to dust; and as for the belly's beast, problem solved: feed it one more crime of passion: viz. the infidelity of the gardener's wife — which, however, can cover only one of two murders (three, actually, including the informant's), but no matter. Meanwhile, Bellodi comes face to face with Mother Mafia as the aging don, taxed and bedraggled, is finally brought to him for questioning. There ensues a lyrico-sociological dialogue on the Mafioso's existential outlook. The story of half-men, pygmies, and “under-ducks” is the characterological preamble to an exhibit of the don's entitlements, to wit: his categorical, merciless contempt for quaquaraquacks (like *Parrinieddu*, whom he says to have barely known); the expanse of acres and acres and acres of land; the rent these yield and the even vaster ciphered accounts of funds withheld from the tax authority; a daughter boarding at a hyper-posh Swiss *collège*; and the violence and death, as the game's prominent utensils, framing it all — tacit, never avowed. For an enemy, though, Arena likes Bellodi: ‘you are a man’, he tells him; he might indeed be a cop, yet he is one possessing the dignity and graciousness of a true warrior. Vice versa: ‘And so are you’, requites Bellodi, not without emotional discomfort: feeling somehow that these monsters' chieftainship, by bringing a semblance of order in the slum's violent expanse of hopeless squalor, is itself meritorious of some sort of (awkward) acknowledgement. For all the mutual “respect” in enmity, the interrogation ends on the usual note(s) (it is impossible to “*pigliari di lingua*” a Mafioso):<sup>20</sup> [2, p. 111] the don claims to know nothing of Colasberna; Pizzuco he knows: he is good guy, and Marchica a bad one for having implicated the former. Amen.

Sometime later, it is from his native Parma, where he is “convalescing,” that Bellodi, reading the papers, is apprised of the way in which his painstaking investigation has been disassem-

<sup>20</sup> Literally, “to catch [someone] by the tongue”: that is to say, to expose somebody's mystifying argument by leveraging its contradictions, or to bring him through subtle questioning to slip, to give away unwittingly a guarded secret.

bled by the regime (which pays his salary) into nothingness. Having personalities of impeccable credentials vouchsafed for Marchica — It was testified that on January 16<sup>th</sup>, *Zicchinetta* was, in fact, hosing the hedges in the estate of a renowned physician, fifty miles from S. —, the accusatory edifice had come irremediably undone. As for Marchica's confession, it was discarded as the fruit of deceit: believing he was being burnt by Pizzuco, he had shot himself in the foot by confecting a mish-mash of preposterous calumnies just to take the other down. And Pizzuco had reciprocated in like fashion, vengefully blasting his opposite with a tornado of equally outlandish mendacities. It had been one nasty mega-fluster — courtesy of shifty Bellodi. And the gun? Yes, if anything, Pizzuco might have been guilty of unlawful possession. A veniality. As if nothing had ever happened, don Mariano Arena, for his part, had gone scot-free; evanesced in sibylline ether. There remained the three murders: the cases had been re-opened, and, thank heavens, the police had made good progress by arresting Nicolosi's adulterous wife and her long-time amoroso, the employee of the power company.

Bellodi is encircled by friends, up there, up north: ‘What is the Mafia anyway?’ they ask. ‘It's hard to explain’. And as he paces back to his place, alone, at midnight, in the icy air of his city slathered in creamy snow, Bellodi distinctly senses that, underneath pangs of confusion, he is in love with Sicily; he knows he would see her again — and that she'd break him.

*Il giorno della civetta*<sup>21</sup> (1961).

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One August day in 1964, Manno, the pharmacist of a small locality in Sicily receives an anonymous letter composed with newspaper cutouts that, threateningly, foretells his death. A week later, on the inauguration of the hunting season, Manno is shot dead along with his long-time hunting partner, the town doctor, Roscio. Next

<sup>21</sup> The Day of the [She]-Owl: the title is inspired by Shakespeare's tercet in *Henry VI* (Part III, Act V, sc. 4): “And he that will not fight for such a hope/ Go home to bed, and like the owl by day/If he arise, be mock'd and wonder'd at.” What Sciascia implied by citing Shakespeare is subject to interpretation: either that the owl by day represents the (regime's culpable) pretense of fighting an evil it is actually colluded with (the Mafia), or that whoever dares to defy the regime will, like the owl by day, be disgraced and ostracized.

to the bodies, the only clue of the crime scene, a cigar butt, of the brand Branca. One of Manno's acquaintances, Laurana, a high school teacher of Latin and Italian, and a bachelor, decides to play detective. He, too, has a clue: the motto *unicuique suum* ("to each his own" — hence the title of the novel *A ciascuno il suo*) that could be discerned on one of the letter's snippets is indubitably from the Vatican's main organ, the *Osservatore romano*. The murderer, Laurana deduces, has a sacerdotal connection. Probing, he further deduces, by exclusion, that the copy of the *Osservatore* used for the threat-note can only have come from the home of the town's archpriest, who also happens to be the uncle of Luisa Roscio, the widow of the murdered doctor: a woman deemed, by all accounts, "very beautiful," by which folk elliptically conveyed that she was a buxom bombshell. At his social club, which, encompasses virtually every "man" in town, Laurana one evening shares with a little pride and immense ingenuousness the deductions he derived from his find of the "unicuique suum." Among those present is Rosello, the archpriest's nephew, and first-cousin of Manno's widow, who draws Laurana aside as they are leaving the club. Exuding affability and only a smidge of interest, Rosello, a lawyer by profession and the town's chief political wheeler-dealer, finesses Laurana for further information: 'What is this story of the *Osservatore romano*?...'

As the investigation stalls, Laurana, undeterred and lost in his own private-eye reverie, perseveres. Calling on the widows of the double murder, the condolences he brings to them are merely a pretext for interrogating the women and learning something more about the habits of the deceased husbands. Though, for all the years they had known each other, she had never stirred anything "physical" in the timid and sexually-repressed Laurana, this time around, sobbing before him, the curves and carnality of Luisa Roscio, mournful and clad in tight black, dizzy the professor with sudden, lacerating arousal.

A few weeks go by, and, while subbing in another city, Laurana runs into a former high-school classmate, now a Communist MP. This last, commenting on the murder of Roscio, confides to Laurana that, a few months back, Roscio had come to see him in Rome, at the Parliament, to ask whether he would have given political backing to a devastating exposé Roscio was preparing against

a local potentate in his province. Roscio had incriminating papers to back up the denunciation. No name was yet uttered. But before he could, in a follow-up trip, reveal names, documents, and information to his friend, Roscio was murdered.

Upon returning home, Laurana relates the whole story to Rosello, who, manifesting heartfelt curiosity for this development, takes Laurana at once to Roscio's home, where the widow, apprised of her husband's trip to Rome, accedes with apprehensiveness to her cousin's request to search the office of the dead husband for the incriminating dossier. The search yields nothing; and Laurana walks out damning himself for trumpeting his murder theory and visibly upsetting the poor widow, for whom his lust intensifies with each successive encounter. It is by chatting with the town's parson not long thereafter that Laurana learns, however, that the only local potentate in town worthy of the name is none other than Rosello himself. Not wishing to think the unthinkable or to pass (what he believes are) the juicy fruits of his summer "inquest" to this big- and loud-mouthed priest, whom, like all priests, he dislikes and mistrusts, Laurana keeps his thoughts to himself.

As the summer ends and the schools are about to re-open, Laurana finds himself thinking less and less of the affair, until, one early September day in Palermo, fate steers him right back to it. Climbing the stairs of the Ministry of Justice, on his way to a bureaucratic errand, Laurana runs into Rosello. In fine mood, Rosello is that day in the company of the Honorable Abello, one of Sicily's most influential politicians, and, slightly to their side, of a mute, rough-looking man wearing heavy, metallic American-style shades. While juggling the few words of a desultory erudite exchange, in which the puissant Abello surpasses Laurana effortlessly, the latter eyes with curiosity the gnarly-looking thug standing next to the suits. Sensing the teacher's inquisitive gaze, what appears to be a peasant in urban disguise extracts a pack of cigars, one of which he lights, to relieve his visible nervousness. Laurana takes a mental note: it is a Branca. Gleaning additional clues from talking to other acquaintances, and to an ever twitchier Rosello, it is not long before Laurana realizes that the *pugnalatore* he saw with Rosello at the Ministry is indeed a first-rate untouchable, a Mafia boss by the name of Raganà. Laurana is

advised by friends to stay clear of that circle lest his nosiness should lose him. He wishes one could finally touch these untouchables, but the wisdom of his confidants retorts that given the present situation — a situation in which, say, the culpable breaking of a State-sponsored dam kills more people than thousands of Raganàs in two decades, and in which the whole of Sicily's able-bodied male population has emigrated, leaving agriculture, and the little industry the isle possesses, in a state of virtual abandon; given such a situation, the Raganàs will stay just where they are.

Now there remains for Laurana to draw up scenarios. And there is only one plausible explanation. Everyone knew it: Rosello and his cousin Luisa had been lovers; long before and, evidently, after Luisa's marriage to Roscio (the archpriest would not allow a marriage between first cousins, for which special dispensation was required). The husband finds out, but, determined to fight for a woman he loves, he enjoins Rosello to break it off and threatens, otherwise, to crush him by baring the remarkable depth and extent of his corruptness, in Rome, with a nation-wide scandal. No less determined to stake his (lover's) claim on Luisa, or, rather, resolved to own her entirely, and pre-empt any sort of political sabotage, Rosello orchestrates the whole sinister plan, the decoying note to the pharmacist, etc.

Meantime, the talk of the town is the forthcoming "reparatory" marriage of Rosello with his widowed cousin. The union is perfectly in order, the townsfolk unanimously agree: Roscio's orphaned little daughter needs a new daddy and, *much more importantly*, the loose pecuniary ends of the doctor's (and now Luisa's) *roba* must presently be re-sutured "inside the family." Knowing her indisputably guilty, Laurana feels instinctive disgust for Luisa and for what is the de facto murderous complicity of the entire community in giving the union its choral blessings. Yet, sullied of blood, adultery, and deceit, the filthy aura she oozes no less instinctively conspires to invert Laurana's sense of moral revulsion into an even more intensified — damning — obsession to possess the voluptuous vamp. One November day, by pure chance, Luisa happens to be on the bus that takes Laurana every morning to his classes in Palermo. She invites the professor to sit next to her, where she cushions him with the side of her thigh and breast; and they so ride together; she, bantering,

and he, choked by desire, barely in control of his faculties. Upon arriving in the big city, though, she suddenly changes countenance, and, in a low, serious tone, confides to him that she has traveled to the capital to dig into the mystery surrounding her dead husband's incriminating folders: she, too, then, suspects her cousin of criminal design and begs Laurana to help her in seeking justice against Rosello. On hearing this, Laurana is torched by a blaze of exhilarating relief and sexually-biting bliss. To coordinate their plan, they agree to meet later that night at a café. But Luisa never turns up; instead, a dejected Laurana is picked up outside the café by a vaguely familiar face from back home, materialized behind a wheel out of nowhere — and driven to a sulfur mine to meet his death under a canopy of detonated rubble.

The final scene is set against the engagement party of Rosello with his cousin, which is held at the manse of their uncle, the archpriest, one year, to the day, after the murder of Luisa's husband. In a backroom, the men talk. Capturing bits of information here and there, and filling the blanks with common ugly sense, all had divined in a day what the moral, lettered Laurana had partially reconstructed in thirty: namely that Roscio, after uncovering the ongoing tryst of the cousins, had gone to the archpriest with an ultimatum: either the archpriest expelled his nephew from town or he would go to Rome with burning papers he had photographed in Rosello's office. Told this much by his uncle, and panicking, Rosello had schemed at once to eliminate Roscio.

As for the "poor professor," what could anybody say? Laurana? "He was a cretin."

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1971. The scene of *Il contesto (una parodia)* is set in an imaginary, pseudo-tropical country. Possibly in some remote corner of Latin America. The mood is sultry and insidious — as sultry and insidious as the seventies were in sultry and insidious regions. Space and surroundings appear languid and over-baked by failure; the style, if any, is tumbledown baroque and intermittently modern-by-half (with a 15-year lag). It is a cock-eyed and occasionally sinister termitary in the fists of a rancorous few, glued together by the makeshift ethos of "*pressapoco*." The atmosphere enveloping it all is one of bland, rarefied unreality such as one may breathe, say, in Belgium or

Canada; altogether, the stage is made to look like Borges's Argentina but the stylized cityscapes we are scanning are all too reminiscent of Italy, or, more specifically, of our good old "Sicily."

For the first time in the nation's republican chronicle —it is a sweet evening in May— a notorious, active magistrate is shot to death by a mysterious assassin. The country is in shock. But the investigation leads nowhere. The lack of progress is such that the police call in their best man, inspector Americo Rogas. Before Rogas may even begin to make sense of the murderer's design, the killer strikes again. In a city seventy miles away from where the inspector is leading the inquest, another judge is felled, a shot through the heart. Two judges in less than a week; same m.o., same caliber bullet, possibly fired by the same gun; Rogas reasons: this smacks of vendetta —the revengeful murders of a man wrongly accused who seeks retribution by scourging his former henchmen. Third time's the charm; Rogas waits. And four days later, like clockwork, a third justice is murdered in a neighboring city. Rumor has it that this last victim had embezzled galore; Rogas follows the lead without much enthusiasm, while his higher-ups keep pushing for the fail-safe theory of the lone, homicidal maniac. Meanwhile Rogas further learns that, for a decade, years ago, the first two victims had been colleagues at the criminal court of justice in the nearby city of Algo. And things take an even eerier turn when, right at that time, in Algo, a fourth judge is slain; and, then, a fifth, in a far off district. Taking the latter for a coarse ruse meant to sidetrack him, Rogas does not budge from Algo; he is ever more certain that this is the (serial) work of an avenger. To track him down, he orders from the tribunal's archives transcripts of all the trials jointly presided and adjudicated by the first two victims. After a process of elimination, he narrows down the search to three men presently re-delivered to civilian life whose dossiers exhibits similar trajectories: no prior criminal record, a plea of non-guilt, and imprisonment on the basis of circumstantial evidence. Rogas goes on the hunt. The first two are nondescript martyrs, now living a flat existence, straining to forget. But the third one, a man by the name of Cres, has vanished. He had been found guilty of attempting to poison his wife and accordingly served a five-year sentence. Rogas is sure this is his man, and just a little less sure

that he has been condemned unjustly, although the possibility that he had been framed by the wife —who had cleaned up the accounts and, flush with unconcealed gaiety, disappeared immediately after the trial— attracts him more than the reverse scenario of premeditated uxoricide.

In any event, Cres is gone, leaving no trace, most likely hiding somewhere, resourcefully, under a false name, with false papers, on the prowl, ready to dispatch magistrate number six. And, punctually, in the capital, shortly after Rogas goes back to the station to draw up his report, a district attorney is mown down by gunfire. This time, however, there are witnesses. Though they were not spectators to the murder, these claim to have seen a couple of disheveled youths fleeing after the shots were fired. Disheveled youths. What a relief. The public exults: from the clergy to the nation's International Revolutionary Party,<sup>22</sup> by way of the Establishment's entire political arc, the silent majority feels vindicated. It was about time. In light of the ceaseless tumult unchained by these underground cells (*gropuscoli*) of young, violent agitators — it's the seventies (!) —, public opinion found it indeed inexplicable, if not unconscionable, that the authorities should have wasted so much precious time chasing a wild vengeful goose instead of stalking the truly dangerous game. Despite his earnest, logically argued protestations, Rogas is enjoined by the chief of police to put the phantomlike Cres out of his mind and to hunt down the "terrorists," instead, which is presently the politically correct thing to do. Not forgetting Cres for an instant, Rogas nonetheless obliges by betaking himself to the political bureau, where he is instructed to locate and interrogate Galano, the guru-editor of the extremist press organ of the revolutionary, extra-parliamentary Left. Caught off guard by Rogas's visit and visibly agitated thereby, Galano, the stereotypical intellectualizing sedition-mongering parlor-phony of the *comédie libérale* — depicted as an upper-class puff of craven, egomaniacal, verbose, and thoroughly compromised nothingness — attempts to deflect Rogas's bad business by pointing, not surprisingly, to "the Right": Rogas had better look for his quarry amongst the Catholic fanatics that have nested in "gruppo Zeta," a neo-anarchist squadron fronted by an ex-priest. The outfit, everyone

<sup>22</sup> Obvious reference to Italy's Communist Party.

knows it, is financed by Narco, the proprietor of the country's main department store chain. As Rogas is about to pay the tycoon a visit, another chief magistrate is assassinated elsewhere; it is the seventh victim. That evening, Narco's palatial residence hosts a social gathering. Though he has been sent by the head of the political desk, Rogas holds no formal invitation to the gala. Among the guests (Galano, too, is present), entertained by Narco himself, is the Minister of the Interior, no less, Rogas's bosses' boss, who castigates the inspector's intrusion, 'What do you want here?'

Summoned to the ministry the following day, along with the director of the political bureau, Rogas is served a pithy summation of the game's current articulation by the minister, who, in so doing, affects unexpected and candid joviality. After thirty plus years of political mismanagement, he avers, there comes a time when putting into play one terrorist formation or the other, both being useful to him as Minister of the Interior, may be just what is needed for the State. It is a form of insurance for tidying over the regime when the epochal/political situation appears to be taking, as it now happens, a turn towards "revolution" (or rather, toward some form of "progressive conservatism"). Such a generational shift in the name of radical "change" signals somehow the historical necessity to hand over the regalia, or at least share them overtly and formally with the institutional "enemy" of the Left, i.e., the International Revolutionary Party. *In extenso*, the minister's rationale is as follows. Terrorism as a political tool has, in this context, a dual valence: the repression of Right-wing violence always provides the conservative party with the welcome opportunity to regain/reinforce legitimacy in the core constituencies (law & order), whereas the *unanimous* criminalization of Left-wing terrorism has the additional benefit of *legitimizing the Left* in the eyes of the conservative electorate (the gentrification of Socialism), which is precisely what the minister and his peers presently wish to see. The politico concludes: it is, indeed, time that the bureaucrats of the "revolutionary" opposition step up to the plate and relay their conservative brethren in dirtying their hands at the helm of the State. Addressing directly the chief of the political bureau with reference to the serial assassinations, as he is about to dismiss both men, the minister congratulates him for harassing the

terrorist *groppuscoli* and exhorts his interlocutors to keep doing so: that is fully in line, he confides, with the wishes of Mr. Amar, the Secretary General of the International Revolutionary Party.

The message is clear: Rogas understands; his superior less so. Outside the ministry, following a hunch, Rogas suggests that it might be a good idea to pay Riches, the Chief Justice, a visit: because he might be next on Cres's list. Further disconcerted and wanting less and less to do with any of this on a strictly personal (physical) level, the head of the political desk consents to Rogas's initiative. Following a winding alleyway past the hyper-sentined gates enclosing the lush green-belt wherein Riches and a few other heavyweights have their vast abodes (consisting of one unpermitted addition after another), Rogas reaches a clearing; beyond it lies the apartment complex inhabited by the magistrate. Strangely, that day, several armored, government-issue limousines are parked in the clearing; the license plates and insignia are revealing: for one, that the chief of police is there (on recognizing him, the chauffeur waves at Rogas), and so is some top brass of the air force. Rogas cannot guess the provenance of the others. Walking into the concierge's booth, he identifies himself and asks to see the Chief Justice. He is told unceremoniously that he cannot be received today; he should try his luck tomorrow. 'And these gentlemen', asks Rogas indicating the limousines, 'who are they?' The concierge conveys that Rogas had better mind his own business. Before catching the bus on the way back, the inspector carries intentionally so as to spy on the armored caravan on its way out, hoping to discover the identities of the other dignitaries. He further manages to recognize the Foreign Minister, and the brigadier general of the Federal Guard. The following day, he is urgently summoned by the chief of police. What was he doing at Riches's, nosing about and asking annoying questions? Ah, still hot on the trail of Cres? His boss reassures him: Rogas has nothing to worry about, nothing to suspect: the chief of the Supreme Court is highly protected; and, if Rogas really wishes to know, he, and the other gentlemen, whose vehicles he had spotted the other day, were not at the magistrate's, in fact, but at an afternoon party of the Italian ambassador, who lives in the same building. Motioning him away, the chief advises Rogas to use caution in his forthcoming interview with Riches. Im-

mediately thereafter, Rogas verifies the story of the party at the Italian ambassador's; it is a lie. That same afternoon, the inspector is granted his audience by the Chief Justice. The man, a masterpiece of arrogance, scans Rogas sitting before him: 'So, you think they want to kill me?' Rogas immediately goes into his pitch, conjuring Cres's shadow, explaining the man's story, his grudge, and especially the circumstance that it had been Riches himself who, all those years ago, had confirmed the five-year sentence in appeal. Not appreciating underlings making insinuations, not to mention spilling the worms out of the can of judicial error onto his lap, the magistrate sees fit to bludgeon Rogas with a long, excoriating invective (with annotations) on the anti-Catholic and anti-Illuminist necessity to administer "justice" by decimating defendants indiscriminately, as if they were sacrificial victims of war in peacetime tribunals: to pass judgment, Riches pontificates, is akin to effecting transubstantiation at mass: it is a sacred rite; 'judicial error' he sentences, 'does not exist'. Rogas finally desists and upon taking his leave, questions the judge: 'do you feel sufficiently protected?' 'What do you think?' replies Riches, who, for an instant, looks visibly frightened.

Walking out of the elevator, his instincts are suddenly abuzz: Rogas has the sensation of looking into a mirror. But he is gazing at another man, who stands in front of him, waiting for the lift. Rogas walks out, his mind revving up: features, height, build...It *must* be Cres. Here he is, then, skulking in the very building of the chief custodian of the Supreme Court. For a flash, instinct would seem to compel the inspector to turn around immediately and go back up to prevent a slaughter long foreknown. But by the time these thoughts have firmed in his head, Rogas is already on the bus, riding back to his place: having the world rid of Riches and his ilk, he broods, is not a bad prospect after all. Rogas now sides with Cres; intimately, Rogas *has become* Cres. A news release of the last hour announces the violent death of another magistrate, the eighth of the series.

The morning after, the inspector devises the agenda for the day. What is happening is clear: 1) a cabal gravitating around Riches is about to stage a coup d'état; and 2) under a false name (that of a Portuguese merchant, as Rogas would

ascertain) the serial avenger is burrowing inside the complex of the Chief Justice. Rogas resolves to contact an old friend of his, Cusan, and tell him everything, just in case. Cusan is a writer and a respected intellectual with excellent connections to Amar and his International Revolutionary Party. Obviously troubled by Rogas's account, yet desirous to help, as well as to shield his friend, who is now overtly tailed by the spooks of the secret police, Cusan offers to go directly to Amar and inform him. But Rogas sinks the offer, saying he would warn Amar himself the following day, and then report back to Cusan.

The week-end elapses without any signs of life from Rogas, until the subsequent Monday Cusan learns from the news that Rogas and Amar had been found dead in two different rooms of the capital's national art gallery. According to the official version, the killer — a bearded man in fitted pants, presumably a young (Right-wing) terrorist — had followed the secretary Amar, a notorious art aficionado, inside the museum, and killed him. Coincidentally, and likewise driven by the love of art, inspector Rogas, was visiting the gallery at that time, when he heard the shot. Trying to stop the killer, he too was fatally wounded in pursuit of the assassin. The midday newscast ends with the further announcement that His Excellency Riches, Chief of the Supreme Court, has been found dead, murdered in his apartment.

After 48 hours of anguished deliberation, Cusan, who, understandably, fears for his life, finds enough courage to come out into the open by arranging a meeting with the vice-secretary of the International Revolutionary Party. In what used to be Amar's office, after capturing Cusan's testimony on tape, the vice-secretary pauses to stare the writer in the eye: 'What if I told you', he gravely begins, 'that Amar has been killed by your friend Rogas?' Cusan short-circuits, uncomprehending. The vice-secretary produces a folder and hands it to the writer: the ballistic report shows unarguably that the bullet in Amar's body was fired from Rogas's gun. Rogas, in turn was, *de facto*, put down by the famous bearded man, who is not a terrorist, but an agent of the secret services. Why? Cusan asks, in a state of hallucinated disbelief: why would Rogas do that? And why would the secret police silence him afterwards? Why not give the man, even if caught *in flagrante*, a hearing, at a trial? *Raison d'état*, rejoins the other, 'let's be

realistic, Mr. Cusan. We could not risk the onset of a revolution —not at this time’.

Pause.

‘I understand’, echoes Cusan, ‘not at this time’.<sup>23</sup>

\* \* \*

Setting: a nondescript small town in Sicily. At 9:37 pm on a Saturday evening, in March 1989, the operator of the local police station receives a phone call. The chief is not in, and the detective is on his way out; Antonio Lagandara, the sergeant, takes the call. He jots down the information, assuring the caller they would send someone as soon as possible. ‘Who was it?’ asks the detective. The sergeant tells him that one Giorgio Roccella, who lives in a country house ten miles away, wants the police to come right away for there is “something” he wants to show to them. ‘That can’t be’, interjects the detective: Roccella is a diplomat, living abroad; that manse of his has been in a perennial state of abandon for as long as anyone can remember. ‘So, what do we do?’ ‘It’s probably a prank’, says the detective, ‘go check the place out tomorrow morning’. The following day, accompanied by two agents, Lagandara drives to Roccella’s country seat. He notices that the stately manor is surrounded not by walls, but by warehouses, whose doors are bolted with brand new padlocks. And through a window, he and his men discern the figure of a man slouched over his desk. Once inside, the policemen find that the man is not asleep, but dead, with a bullet hole in his temple. The gun, a German pistol dating from WWI, lies on the floor to the right side of

the armchair. It appears to be suicide. But it isn’t: the sergeant reasons that in the case of suicide the arm should be limp over the Mauser, to the side of the corpse, and not resting on the desk over a hand-written note reading: “I have found.” That strange period after the word “found” sets the reel spinning inside the sergeant’s head. He imagines that Roccella had begun drafting his memo for the police shortly after his 9:37 pm call. Then, someone, the assassin, buzzes the doorbell. Roccella lets him in, believing it is the police. The gun is on the table already, for his eventual defense; Roccella is nervous. The guest feigns curiosity for the antique revolver, asking leave to examine it; he picks it up and shoots Roccella in the head. Seeing that the latter had begun writing something, the killer affixes the period after “found” to make it look like a suicide note. Militating against the suicide hypothesis is also Roccella’s fountain pen, which lies on the desk, *capped*. It had to have been murder. Inspecting the rest of the house, the policemen gather additional clues: the kitchen has been recently used; the attic is littered with several busts of saints (the bigger of the lot being that of St. Ignatius, whose likeness the non-devout sergeant does not recognize); and the yard, crisscrossed as it is by multiple tire tracks (trucks?), reveals a flurry of recent activity.

Less than two hours after the find, Police and Carabinieri are investigating. Through various testimonies, the authorities piece together the backdrop to the case. We learn that the ex-diplomat Roccella, theretofore retired to Edinburgh, had rather suddenly decided to return to his native estate to recover two sets of valuable epistolary exchanges (between relatives of his and Luigi Pirandello and Garibaldi respectively). Until then, a priest, Father Cricco, had been charged to keep half-an-eye on the property. Upon entering his estate, Roccella had been puzzled by the recent installation of a land line, of which he knew nothing. But even more unsettling was the discovery, in the attic, hung above the chest containing the packs of said missives, of a famous painting—a famously *stolen* painting, that is. Shaken, right before placing the fateful 9:37 pm call, Roccella had telephoned a personal friend to inform him of these weird circumstances.

The case is further jolted by the discovery of two more dead bodies, those of the local train

<sup>23</sup> The finale is ambiguous for the crucial denouement at the art gallery is artfully redacted from the narrative: either Rogas had all along suspected Amar of being deeply involved in Riches’s conspiracy—in keeping with the avowed aim of the Minister of the Interior of coopting overtly the “revolutionary” Left—or, more likely, he obtains confirmation of such an intent from Amar’s department and answers in the course of their “secret” rendezvous at the gallery, which is left to our imagination. Amar could have been the one chosen to front the coup. In any event, inferring this much implies that Rogas had, from the outset, entertained serious qualms about Amar’s integrity (hence his insistence, before Cusan, of seeing the secretary himself), and thereby contemplated the eventuality of dispatching the politician at the gallery, there and then. Thus Rogas would carry out this final ritual murder as if he were Cres’s double—the punisher in whose “reflection” he had seen himself, in the final stages of the story. Rogas becomes Cres, one joining the other, both dissolving in the scourge, in that wave of karmic death, which had begun with the lone revenge of a presumed uxoricide. With the joint immolation of Riches and Amar—the two “opposing” masks of power—“justice” is symbolically meted out, at last.

station-master and his assistant. A Volvo is seen leaving the station shortly after the estimated time of the murder. Hearing on the radio that the police is hunting an automobile just like his, the driver of the Volvo — a travelling salesman of pharmaceutical products —, resolves to take himself immediately to the precinct. He relates to the police how he had noticed that a local train had been blocked for hours by a semaphore signal, whose mechanism seemed to have broken down. The salesman had stopped to talk to the conductor, who had asked him to drive up to the train station and inform the master of the malfunction. The salesman had done so, and while speaking to the master, he had caught sight, in the back, of two more men intent on rolling what appeared to be some kind of “carpet.” Shown by the chief of police the ID pictures of master and assistant, the salesman, however, denies having ever seen those faces.

The authorities decide to conduct a third inspection of Roccella’s villa. All key witnesses are driven to the scene; the chief and sergeant are present, followed by a platoon of officers, and, in cauda, the detective, who invites Lagandara to lead the way, being this, he says, his first time on the premises. Oddly, the doors to the warehouses are wide open, the padlocks gone, nobody knows how: the smell from the inside is an acrid blend of alcohol, burnt sugar, and soaked eucalyptus leaves. Once more, they all amble from room to room, unearthing nothing new, all the way up to the dark attic, whose light-switch lies, hidden almost, behind the bust of St. Ignatius. The first time, the sergeant had gone through an entire matchbox to locate it. And as they all shuffle in the dark amid mounds of bric-a-brac, the detective taunts the sergeant, ‘what are you looking for?’ ‘The switch.’ ‘Ah, right, you could never find it. It’s not hard: it is behind the bust of St. Ignatius’. Click.

Early the next day, detective and sergeant both sit at their desks in the room they share, the one oiling his firearm, the other (feigning to be) reading the newspaper. His senses on maximum alert, screened by the paper, Lagandara clutches a pistol in the top drawer of his desk. Finished with the cleaning, the detective “tests” the gun pretending to take aim in rapid succession at the lamp, the calendar, the door handle: one-two-three, then, in a flash, points the gun at the detective and squeezes the trigger. But before he could direct

his shot, Lagandara had plunged to the side firing his gun and lodging a bullet straight through the detective’s heart.

*In camera*, the authorities reconstruct the case. In sum, the detective was the ringleader of a gang, which had used Roccella’s uninhabited estate as a narcotics refinery and repository for fencing precious items (the painting). Warned of the proprietor’s unanticipated return by the famous phone call, he had postponed the police’s intervention by going personally to Roccella’s, killed the diplomat, and organized the immediate evacuation of the gang’s implements, and of the painting. All such incriminating evidence, in turn, must have been conveyed to the local train-station, where master and assistant — accomplices both — must have refused to store it, defiantly so. For this they were killed. This explains that the Volvo’s driver saw not the train-station personnel, but their murderers. In closing, the shooting at the station and the detective’s death, police, Carabinieri, and magistrature concur to divulge as an “accident.”

The final scene takes place in the police station. It is hectic. A funeral parlor has been set up, where the body of the detective awaits the solemn adieu of the force, along with the benediction of the local priest, our Father Cricco. The priest has just arrived to the premises. Going the other way is the man of the Volvo, who has finally been released from custody after having dispatched the formalities. On the doorsill, as he is rushing out to freedom, he comes across Father Cricco. “The priest stops him with a hand gesture: ‘I think I recognize you. Aren’t you a parishioner of mine?’” [25, p65] The man curtly denies and flies off, relieved and exhilarated. But, while driving away, he suddenly recalls, that priest, yes, he was the train-station master. For a moment, he considers going back, to the precinct, but, on second thought, decides otherwise, and continues driving the other way, singing.

*Una storia semplice.*

*God, Sovereignty, Irreligiousness & Conspiracy*  
Now, can “Sicily” —like the sun and trees, the crystals, tarantulas, and parasites... — be the work of God? Of any god (hidden or manifest)? Not really knowing, Sciascia takes literary shelter (Dostoyevsky)<sup>24</sup> in a notorious and anguishing

<sup>24</sup> One could say that Georges Bataille took this question as the point of departure of his entire a-theologia [24, p. 281]; e.g., it was also very present in the vision of Eugène Ionesco: “I have

question of Christian theology: namely, that it is an error to think that Christ wishes to forestall evil, [3, p78] because sin, suffering, and violent death would not be possible unless there were a “force” capable of “redeeming” such scourges, of bringing solace to sufferers, of *forgiving* the consummation of infamies. Another way of stating the predicament is Georges Bataille’s challenge: cannot God’s promise of infinite forgiveness be understood as an invitation to commit unbounded atrocities? Thus, if God exists, everything is *allowed*; conversely, if he does not exist, nothing is allowed.

Considering, then, that the systematic perpetration of infamies is the accepted rule under the “Sicilian” sun, we must deduce therefrom that (a Sicilian) God exists. But it clearly is not a cuddly divinity, but a rather cynical, perfectly inscrutable overseer, who, in the final analysis, *is of (vexatious) concern only to heroes*. Heroes, like the legendary figure of Fra Diego La Matina (1622–1658), a trouble-making friar who finds mention in the Sicilian chronicles for being the Inquisition’s only victim fortunate enough to have slain, with a sharp piece of iron, his persecutor, Juan Lopez de Cisneros, during an interrogation. Fascinated by Diego like other writers before him, Sciascia appropriates the friar’s tiny, faded icon (virtually nothing is known of his life-history), and re-paints him as some kind of anti-Spanish gallant-preacher. What is recorded, instead, is the ritual unfolding of Diego’s execution. Preceded by an unusual cortege of horse-mounted monk-inquisitors, whose regal solemnity moves the mob to tears, Diego — the anarchoid *toro* following the monachal *picadores* — is then served to the crowds. And as the commoners, loud and vulgar, badger him, asking him to repent, he hurls back at them as many profanities as he can before being gagged and muzzled by henchmen in attendance. But in extremis, Diego does repent and vows to

submit, in exchange for his life; and in support of his plea, he cites scripture (Ezechiel 33:11): “nolo mortem peccatoris, sed ut magis convertitur, et vivat.”<sup>25</sup> However, the “vivat,” replies the confessor, quibbling, is intended in the spiritual sense, not the corporal one. Die he must. This can only mean, Diego concludes, that “God is unjust.” [6, p80] Sciascia seals it thus: “In the very moment in which his defeat appeared to him hopeless and irremediable, and identifying his personal tragedy with the tragedy of existence [...], Diego turns his [life-long] rebellion against iniquity [...] into an arraignment of God.” [6, pp. 92–93]

In this connection, an isolated instance in which Sciascia acknowledges respectfully—though not without a tinge of discomfort — the militant presence of God under the Sicilian sun is that of the noble Tomasi family of Palma Montechiaro in the seventeenth century. The clan’s lead *pasionaria* was one Sister Maria Crocefissa, who, since the age of fourteen, had lived with her mother and three sisters in a monastery erected by her father, known as il “Duca santo” (the holy Duke). Following the example of the Duke — and in complete opposition to the “Sicilian” social model, whereby the Mafia comes into being as the baron’s private security against the larcenous siege of the rural rabble — the Tomasi devoted themselves body & soul to alleviating the pain, need, and indigence of their estates’ people and vassals. The acquisition of slaves was strictly forbidden; and their daily, intense charitable work was carried out with a flattening drive of self-effacement so pure that the family’s profession of humbleness was sublimely transmogrified in all those typical, and frightening, manifestations of the “sacred impure.” They routinely excoriated, bled their bodies, self-flagellating and engraving the names of Christ and Mary in their flesh, or swept the dirty floor with their tongues. Acts of this variety, which have been the repertoire of several Catholic saints and mystics, represent the “turbid” practice of the *human-as-sponge*, who pacifies the earth by absorbing ritually the pain through bloody self-mutilation and cleanses it by sucking its filth. We spoke of Sciascia’s discomfort. Respectful and admiring though he might be of the piousness of the Tomasi and, accordingly, of

been baptized in the Orthodox Church [...]. At eighteen I felt a more pressing need of finding what is referred to as God and I saw a monk from Mount Athos. I asked for confession. He told me: ‘So, what is it that you have to tell me? — Father, I have done horrible things. — Well, yes, I don’t really care’. I wanted to tell him what I did — ‘Yes, yes, before telling me what you have done, tell me, do you believe? — Well, I don’t know, I would like to know myself — Well, that is the most important thing: whether you’ve done whatever, whether you’ve killed, whether you’ve been incestuous, whether you’ve stolen, all of that, is the way of the world, it has no importance; one must believe, that is all.’ [25, pp. 247–248].

<sup>25</sup> “I swear I take no pleasure in the death of the wicked man, but rather in the wicked man’s conversion, that he may live.”

their quasi-superhuman sense of social justice, the writer's acknowledgement of God's work in reporting these facts is, in fact, always uneasy: "It must have been a mixed sentiment of respect, of veneration, a sense of horror coupled with piety, which these poor subjects of Palma felt for their masters." [5, pp. 56–57]

All this business of human-sponging mars what this post-modern Illuminist wishes he could have recorded as an azure, if rare, example of good work done by good Christians. But, again, God's presence — whether it be signaled by Diego's everlasting grudge, or by the Tomasi's devotional morbidity, or, paradoxically, by God's far more frequent absence ("silence") in the face of distressed invocation — seems to obscure a picture that is already bleakest: it is the "sovereignty" of it all: no matter what we attempt in the name of the good, either we find ourselves perennially forestalled (or eventually swayed) by sheer barbarousness and the basic, nauseating, mechanisms of *power*, the contours of which we have outlined above, or we manage to achieve it partially, compromisingly, and often in air of purulent strangeness. Most of the time, then, there is no God; he hides; and when he surfaces, he either reveals himself as the actual mastermind of power's crude game, which most of us instinctively hate to play, or some kind of grand Luciferic philanthropist.

As mentioned earlier, very rarely do historical shake-ups yield "new men," who, in turn, are supported by a clergy that believes in God and a handful of police officials sufficiently impervious to excommunication (by the Church of State) as to weaken, *momentarily*, the older, refractory clergy in charge of the conventional, "Sicilian" order. [5, p. 61] But these are mere flashes in an otherwise continuum of conservative consolidation; brief heroic intervals, during which God is brought into play either through doubt or heroic self-abnegation. But most of the time there is no question of God whatsoever, because the average "Sicilian" has no interest in seeking a word or sign from him: there is nothing to gain therefrom, in the immediate. And that is why *saints* acquire paramount importance in his animistic day-to-day living: the Sicilian feels them a great deal closer to his own heart. Because they had walked the earth, and had been mortal, saints "indubitably had to have been more powerful than God." [5, p. 189, 193] Apparently, not even the story of Christ,

who is said to have likewise walked the earth and died a human death, can bring the Sicilian to gaze up from his earthly inquietudes. "This utterly irreligious manner of intending and professing a religion that is nonetheless firmly, rigorously, and meticulously codified in every aspect of the cult, internally and externally, strikes its roots in a profound materialism, in a complete imperviousness to anything having to do with mystery, invisible revelation, and metaphysics." [5, p. 195]. In this sense, totems and idols are more fitting: they satisfy, legitimize the prurient impulse to feud with all neighbors; and they provide regular occurrences — the "festivity" of such and such holy patron or patroness — that allow the Sicilian to break free from the cage of his existential and psychological solitude and merge, however briefly, in the collective. Finally, when they gather to hail the Virgin — "bedda madri" [2, p. 38] — as *mater dolorosa*, allergic as they are to any kind of transcendence, "Sicilians" never contemplate divine redemption through sacrifice, they rather play out the psycho-drama of their *mal di vivere*, in the flesh, striving to exorcise all along the utter terror they feel for death. [2, p. 199, 202, 203].

Sciascia, at any rate, is not so keen on plumbing this divine affair too deeply. Religion's existential conundrum clearly disturbs him, but he manages to keep it out of his mind somehow, knowing that the time of the Church has passed anyway ("its squalid present, and its inevitable demise"). [3, p. 31]. He seems, then, to espouse reluctantly some variant of nihilism — namely, the credo of the void begetting god-knows-how (the possibility of) order, which, ultimately can be kept afloat by one thing only. Like his heroic protagonists, Sciascia believes in *the Law*, in the rational and enlightened observance thereof. But no matter whither one turns, the question remains: whose Law, and in the name of what? Not even Sciascia is so sure about this "Law," or anything else, anymore. He cannot make sense of God; he cannot make sense of his compatriots, who, historically, have thirsted for the blood of public executions, yet, no less ravenously, bestowed on the executed the chrism of sainthood; and, speaking of "the Law," he cannot even make sense of the (humanitarian) conviction that it is a noble thing to fight and obtain a reprieve for a man sentenced to capital punishment. This consideration brings him to assess the significance of life itself. If this life of

ours is merely an absurdity; if “all this” is merely “a dream within dream,” wouldn’t the concession of a few more days, wouldn’t the postponement of the agony allow the man in death row to dream for some time, say, “cleaner” dreams, and eventually cross onto the other side with a more peaceful, more “religious” heart? It is convenient — Sciascia concedes —, it is easy for the juror to save his soul by rejecting, by saying no to the horror of the death penalty while the system inexorably, indifferently grinds on; but what does the suffered obtainment of a postponement (of the execution) actually represent in the incomprehensible play of this congeries of sensations, which we grossly describe as a “dream”? Is the compassionate juror really saving his soul, and could the tortured animus of the reprieved offender be somewhat purified through repentance in overtime? To believe so, Sciascia concludes, is “a fantasy.” [26, p. 65, 107–108].

In the final analysis, we know it, explaining the purpose of creation is impossible. Can the behavior of humans, on the other hand, say something about the deeper, hidden mechanisms of life in general — something beyond the triteness of “dog-eat-dog” as suggested by the cycle of Nature’s food-chains? If ascribing the mystery of existence to the design of a single “architect” poses unsurmountable conceptual, theodicean difficulties, the attempt to psychoanalyze such an architect through an interpretation of his “dream(s)” should be even more daunting (*viz.* whose dream? How does God dream?). Should we, then, content ourselves with the archaic (and no less conceptually unmanageable) credence that life is a game imagined by a cohort of demons, and/or of gods? In other words, are we all victims and preys like the men and women of the *Iliad*? Do these gods live to *conspire* against us, and we against each other? If so, is violence the principal means for acquiring power, and, likewise, is conspiracy the premeditative foundation to the sum of humanity’s power-motivated acts of (physical and/or psychological) brutality? Maybe so; Sciascia is not explicit on this. In the *Iliad*, the gods stood above men, Zeus commanded the heights of Parnassus, and *blind chance* (Τὸ ἄχρη) stood over Zeus. The *Iliad*, too, is somewhat Sicilian. Sciascia imagined the story of a Mafia-infested town that, one day, finds itself suddenly torn, and eventually shaken to its foundations by a bloodiest and interminable

feud. The rage of the battle is bemusing, and the townsfolk are at a loss for explanations. As the confrontation escalates, the patriarchs — rational men all of them — set out at once to pacify the opposite tribes, wondering all along what could have started the vendetta and kept it going so ferociously, for so long. Across clannish divides, they meet, they talk, they reckon; and they learn that two-thirds of the killings are neither the work of one clan nor that of the other. Allegedly, an extraneous party is fueling the bloodshed. Who, what can it be? A third, underground faction, bent on the sabotaging the other two? A lone gunman? Or is this all the result of a covert operation conducted by the Carabinieri with a view to wipe out summarily the vermin they cannot otherwise imprison with due process (“if the government, in order to forestall over-population, occasionally encouraged the spread of cholera, why not think that the Carabinieri could be secretly intent on eliminating the Mafiosi?”)? As the honored society solicits the counsel and intervention of their political sponsors in the capital, the boss of the old mafia is gunned down. But, then, after this last outrage, the truth emerges. We discover that the bloodbath had been provoked and fomented by one man alone, the town’s pharmacist. Single-handedly, he had unleashed his fury against the local Mafia — all of it — because years ago, his engagement to a young woman, much richer than he, had been opposed by the girl’s family. Seeing his steel resolve to marry their daughter, the parents had requested the Mafia to step in in order to dissuade the indigent pharmacist; fearing the Mafiosi would have made good on their threats, the girl broke off the relation and married a peer. Having thus informed one another of the true assassin’s identity, the mobsters restore the peace and the cartel’s activities. Shortly thereafter the man’s body is found, sprawled on a chair before his pharmacy, the heart blasted by a shotgun shot. There stood “the cadaver,” Sciascia writes, “of the man who had succeeded in sowing death and fear in the ranks of one of Sicily’s fiercest Mafias.” [9, p. 126, 128]. Above the pusillanimity of half-men and half-women, above the Mafia, above the State and its standard connivances and conspiratorial routines, and above Zeus’s “Justice”; above all that, the random and blind rage of a lover wronged.<sup>26</sup>

<sup>26</sup> The thematic structure is similar to that of *Il contesto*.

Such, then, appears to be the configuration of life's game: a spiritual pandemic in the etheric backdrop, whose tangible fruit is a chronic scourge of varying intensity ("the decimation" — of soldiers, in war, or defendants, in peace). It is effected by a solitary angel of death, who exploits, manipulates in estranged humans the sanguinary wrath of wounded pride. In the midst of this wave, of this magnified radiation, mechanized clusters of men (the "institutions") conspire against one another through the impersonal channels of this "machine," to the obvious and general detriment

of the quaquaraquacks. And at the bottom of the pyramid, the quaquaraquacks survive, endure; but, mostly, they emulate — pettiness and petty betrayals aside —, knowing that their salvation, if any, can only occur by being coopted somehow into the complicit silences of power, be it via the Mafia or the State (or both).

Before killing the lights, Sciascia has an alter-ego ask him: "I was wondering, are you still terrified, are you still scared?"

"Yes."

"So am I, of everything." [26, p. 108].

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