

ITALY AFTER B.



Lo Spazio
della Politica

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INTRODUCTION

>> Alessandro Aresu // Andrea Garnero

// Why Italy Matters

“Quegli tra gli stranieri che più onorano l'Italia della loro stima, che sono quei che la riguardano come terra classica, non considerano l'Italia presente, cioè noi italiani moderni e viventi, se non come tanti custodi di un museo, di un gabinetto e simili; e ci hanno quella stima che si suole avere a questo genere di persone; quella che noi abbiamo in Roma agli usufruttuarii per così dire, delle diverse antichità, luoghi, ruine, musei.”

· GIACOMO LEOPARDI, ZIBALDONE 4267, 31 March 1827¹

BERLUSCONI'S FALL.

Is Berlusconi back? Maybe, or maybe not. But for sure Italy is already in a new era, the era of Italy after Berlusconi. Let's start from the beginning of the end. On November 12, 2011, Silvio Berlusconi resigned as prime minister. In the months preceding his resignation, Italy was at the centre of the euro crisis, and his double “too-big-to-fail/too-big-to-bail” status had captured the attention and pressure of European and international governments. On the one hand, the severity of the Euro crisis exposed Berlusconi's “unfitness”² to lead Italy, especially having a weak and litigious majority in Parliament, but on the other hand it forced other countries to think about Italy without always referring to imaginary and real stereotypes. The same representation of Berlusconi in the English-speaking countries shifted from parodies about his sexual encounters with young women to the *Time*'s cover, “The man behind the world's most dangerous economy”.

On November 16, 2011, the president of the Italian Republic, the former Communist Giorgio Napolitano, appointed Mario Monti, chairman of Bocconi University and former European Commissioner, as the new PM, in order to “save Italy” and face the crisis with an overwhelming majority in Parliament composed by all parties but two (the Northern League and Italy of Values, the party of former Clean Hands judge Di Pietro). Monti formed a technical government mostly composed by prominent professors and state bureaucrats.

Thus Berlusconi's era came to an end. How did this happen? Not

¹ The quote by Leopardi reads: “Those among foreigners who honour more Italy, that is to say those who consider it as the land of the classics, do not consider Italy's present and us, modern and living Italians, but they just see us as museum or cabinet keepers and they hold us in such esteem. They treat us as we treat those in Rome who lodge in the various antiquities, places, ruins, and museums”.

² Berlusconi's unfitness to lead Italy has been the well-known case against him championed by Bill Emmott's “The Economist”. Emmott recently wrote a book about Italy, called *Forza, Italia* (Rizzoli, 2010).

simply through the judiciary system. Not because of the girls. It was not a violent showdown. According to some reports, it ended in such a “non-Italian” way that it was suspicious, considering that Monti worked as an advisor to Goldman Sachs and was a total stranger to Italian political parties. This was even defined “a coup d’état perpetrated by the European Central Bank and the government of Germany”³, but it was certainly permitted by the constitutional powers of the president of the Italian Republic. At that time, however, Berlusconi was not rejected only by real and imaginary powers, but also by the vast majority of Italians. In a famous 1994 speech, which marked his entrance into politics, Berlusconi declared: “Italy is the country I love”, and a vast part of the country has always loved him back (while another part, which was merely composed, according to his opinion, of “communists”, “haters” and “assholes”, strongly disagreed). In his rhetorical and political moves, Berlusconi always followed the polls, emphasizing in 2009 and 2010 that he was the only Western incumbent whose popularity seemed to be unaffected by the crisis. However, in October 2011, only 20.5 percent of the polled population supported him, a figure which is even lower than the unpopular Prodi cabinet in late 2007.⁴ One year later, in the winter of 2012, polls are even worse, sometimes ranking his party third after the Democratic Party and Five Star Movement (the new protest party led by comedian Beppe Grillo). In October 2012, facing these dismal poll results, he declared his will to withdraw from active politics. Sentenced to four years for tax fraud, he changed his mind once again and, in a heated press conference, he declared his willingness to fight back and stay in politics even without running for the leadership. In December, Berlusconi’s heir apparent Angelino Alfano declared that a primary vote for Berlusconi’s successor was not necessary anymore, because Berlusconi himself will run for prime minister again, for the sixth time (previously scoring three victories and two defeats), at the age of 76 years. He announced his candidacy with a strong criticism of the Monti government’s policies and he denounced the spread between Italian BTPs and German Bunds as a “con”. Given that Berlusconi’s party (*Popolo della Libertà*, People of Freedom) was the strongest party in coalition, Monti decided to resign. Elections are now due in February.

So, how can we imagine an Italy after Berlusconi now, just when he is again on the headlines of all newspapers in the world for his (surprising but possibly temporary) comeback? First, his favourite tool of government (polls) is very clear: this time, Berlusconi is not fighting to win, but simply to survive, hoping to weaken the centre-left victory. His sixth bid highlights the weaknesses of Italian conservatives. But the bad performance

³ See http://www.slate.com/blogs/money-box/2012/06/01/silvio_berlusconi_is_making_sense.html

⁴ See Indagine Demos & Pi for La Repubblica, November 2011, p. 7.

of his last government cannot be washed away just by rhetoric. Even “populism” is not completely on his side. For example, he now points to austerity demanded by Germany and European elites as the source of Italian disgrace. However, the Five Star Movement led by comedian Beppe Grillo which has never been in power might be much better (and credible) at this.

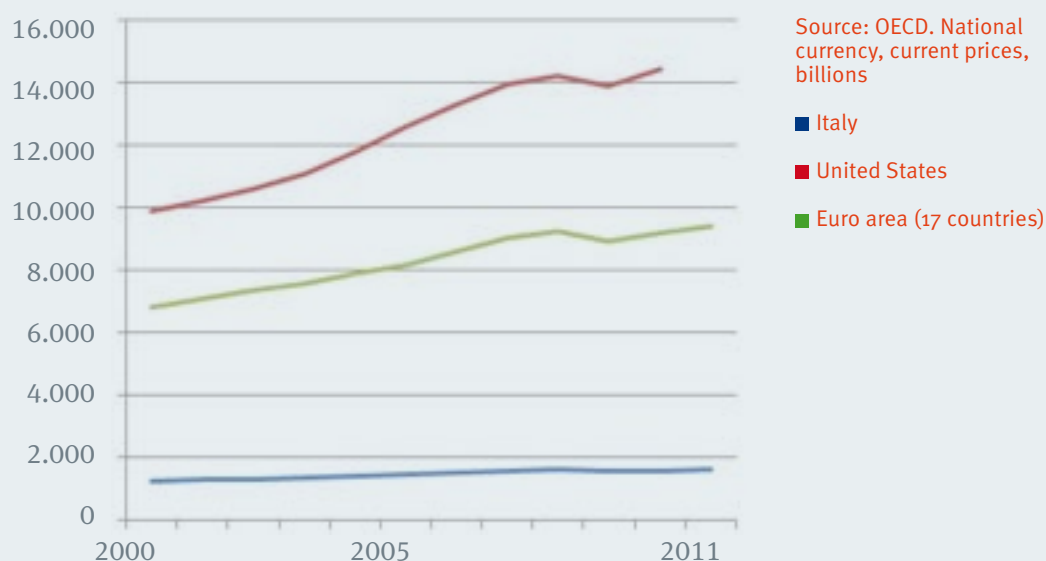
Second, we argue that for Italy, a new era has begun. Monti and his technocratic government have been the first step of this new era. The elections in early 2013 will provide a second, key, test: currently, the leftist Democratic Party leads strongly in the polls, boosted by the primary vote, in which Pierluigi Bersani, the party’s secretary and former minister of Economic Development, defeated the 37 years old mayor of Florence, Matteo Renzi in the second round 61% to 39%. During the first round of the vote, more than three million people have participated. The main slogan of Bersani’s bid for premiership, “no fairy tales”, highlights some degree of maturity in Italian society: the “politics of truth” on the country’s problems initiated by Monti will not be followed by the “politics of deceiving”, also because of international constraints. However, there are still a number of uncertainties in the political scenario. A Bersani government could seem a safe bet, but the left has a very bad record with stability, particularly during the ridiculous coalition of twelve different parties from 2006 to 2008 under Romano Prodi, former EU Commission President. According to Bersani, this time is different: the Democratic Party is by far the strongest in a coalition which, so far, includes only other two parties, the small socialist party and the leftist *Sinistra Ecologia e Libertà* (Left Ecology and Freedom). All the parties in the coalition have signed a pact of commitments, emphasizing majority rule in uncertain decisions, but clashes between the “centrist” and the “leftist” wing of the coalition, particularly on economic issues, could arise again. Another concern is the electoral law (the infamous “Porcellum” as it was nicknamed) which gives an overall majority prize at the Chamber of Deputies, but a majority prize based on the performance in every of the twenty Italian regions at the Senate: this means that the center-left coalition could easily gain control of the lower chamber, but the higher chamber could lead to a hung parliament, particularly if Berlusconi and the Northern League are able to win in Lombardy, Italy’s biggest region. These concerns could lead to a kind of agreement between the center-left coalition and centrist parties, but the real game changer for those centrists (including the Catholic Union of Center and a movement led by Ferrari’s Chairman, Luca Cordero di Montezemolo) would be a direct involvement of Mario Monti, who, with Romano Prodi, is the frontrunner for the role of president of the Republic with a center-left majority.

These uncertainties aside, the biggest challenge Italy faces is the redefinition of the overall approach to government in a new international scenario and of the policies to be implemented in this new era. Apart from their differences, all Italians should start from the recognition that the country has lost so much time in an extremely important age and a debate on the future of our country has never been more urgent. We will certainly lose more time if we keep talking only about one person, instead of discussing our goals, our needs, our firms, our jobs. In “Italy after B.”, challenges rise for both the left and the right. In this ebook, we analyse and develop some of these issues. Our focus is on policies, not politics.

WHICH ITALY AFTER B.

How does “Italy after B.” work as a conceptual tool? Since we started this project as Lo Spazio della Politica in 2009, we argued that the narrow focus on the polarizing and flamboyant figure of Berlusconi deprived our country from a necessary and more sober analysis of our weaknesses and opportunities. Our “lost decade” is embodied more by Italy’s stagnant GDP during the 2000s (see the graph below) and falling productivity than by Berlusconi’s face.

CHART 1: A STAGNANT GDP, 2000-2010



Of course, there have been specific problems that were closely related to Berlusconi. Lucio Caracciolo presents some of them in his contribution to this volume: the concentration of media and political power in one figure (with both the political power to rule state television and the private interest to work for in benefit of his own firm’s); the polarization of public debate on non-crucial

issues for the national interest; and the long-standing damages to our reputation in Europe (particularly in Germany). Berlusconi's foreign policy was focused on "personal diplomacy" and strictly related to energy suppliers with geopolitical power (most notably, his links with Vladimir Putin and Muammar Gaddafi), even though Italy's energy policy goes beyond these relationships, as Andrea Bonzanni and Matteo Monti argue in this volume.

Throughout these years, we always believed that the key problem for Italy would not be the narrative of Berlusconi's age, but the future of the country at the end of his age. Since Berlusconi's fall was brought upon by severe pressures on the Italian debt and on the euro, most of the current analysis tends to focus on the economy. However, many issues remain open:

1. *What would transition become?* In the last two decades, the term "transition" has been used to describe Italian politics, in the necessary shift from the political system during the Cold War. In those years, the so-called "First Republic", the Italian Communist Party was excluded from the government and the Christian Democracy ruled without interruption, forming unstable government whose changes were accomplished by shifting majorities in the Parliament and by political tricks rather than by popular election. The "Second Republic" was supposed to achieve Italy's long-lasting obsession: becoming "a normal country"⁵. Now that the Second Republic is over, we know that its promise was not fulfilled. The years of bipolar ruling (since 1994) provided more stability, but, at the same time, did not bring about any real project of serious and consistent reform for the country. What is more, the current electoral law contributed to decreasing the reputation of the political class among the citizens. The late historian Luciano Cafagna, in a 1993 book⁶, convincingly summarized three factors of the Italian crisis: a fiscal crisis, due to a flawed welfare state which was based solely on debt and not on redistribution; a moral crisis, related to party financing and their inefficient occupation of state industries; and an institutional crisis, focused on the clash between powers, especially the executive and the judiciary ones. These crises have not been solved at all, and they have now spread to the local level (especially the fiscal crisis and the moral crisis), given the new powers of regions, particularly on health management, which is a key sector for the future of Italy's aging population. The last wave of scandals, particularly in Lazio (the region of Rome) and in Lombardy (Italy's wealthiest region, which includes Milan), has also underlined the flaws in the Italian institutional setting: If the outrage against politics in the early 1990s was concentrated at the state level and the local communities were considered potential saviours against the State, nowadays the regional level is considered far from innocent.

⁵ But consider John Agnew's correct remark: "The whole concept of a 'normal country', however, is deeply problematic. It is based on an idealized model of electoral politics in Britain and the United States which presumably lacks the geographical and ideological fractures of Italy and as a result effortlessly produce alternation in national office between distinctive left- and right-leaning political forces" ("Remaking Italy? Place configurations and Italian electoral politics under the 'Second Republic'", *Modern Italy*, Vol. 12, No. 1, February 2007, p. 18)

⁶ See L. Cafagna, *La grande slavina*, Marsilio, Venezia, 1993 (II ed. 2011).

2. *The new shape of politics.* Following the research of Ilvo Diamanti, scholars such as John Agnew and Michael Shin⁷ emphasized the “geographical secret” to Berlusconi’s resilience in politics, i.e., the ability to build winning coalitions based on the regional aspect of Italian politics, both within the North and the South with different and sometimes contrasting partners (for instance, keeping together the Northern League and other small regional movements in the South). This also had to do with an economic constituency consistent with Italian industrial and post-industrial economy which saw in Berlusconi, at least at the beginning, his champion. In 2011 and 2012, however, significant changes took place through local elections: In 2011, Berlusconi lost Italy’s economic capital city, Milan, to the centre-left coalition, and in 2012 the People of Freedom party obtained single-digit results in many cities, while the Democratic Party resisted and the Five Star Movement led by the blogger-comedian Beppe Grillo registered a remarkable ascent, becoming Italy’s second party in the polls, with a platform focused on direct democracy and a strong rejection of traditional parties. Therefore, as we said, Italy faces an uncertain political scenario for the upcoming 2013 general elections, considering that the country is getting poorer and that many key problems of Italian democracy, such as the “failure of nationhood”⁸ and the extensive spread of mafia control even to the wealthiest regions, still remain unanswered.

3. *Italian capitalism in the globalization.* The Harvard economist Kenneth Rogoff once remarked: “Germany has been the winner in the globalization process, while Portugal, Spain, and Italy are among the losers”⁹. This argument is problematic in a European perspective, particularly in a political, risky scenario of a whole decade of crisis among the “losers”, but it is useful nevertheless, because it helps us to consider the reasons why Italy “lost”. While in terms of the political system Italy has often longed to become “Anglo-Saxon”, in terms of the overall direction of the economy the new goal is to become “German”.

This has led to inconsistent and very often contradictory reforms that wanted to favour free markets but also maintain strategic coordination: For instance, reforms carried out in the key spheres of labour and corporate governance proceeded in a remarkably incoherent manner. Marco Simoni argues that “incoherence is apparent within each institutional ambit: increased wage coordination was paired with increased labour flexibility; new corporate governance norms which are close to the Anglo-American model were juxtaposed with new financial regulations which allowed banks to own non-financial firms, as it is the norm in coordinated regimes”¹⁰. Moreover, most reforms have been partial, and especially those concerning the labour market, which is currently fragmented between highly protected older

⁷ See J. Agnew and M. Shinn, Berlusconi’s Italy. Mapping Contemporary Italian Politics, Temple University Press, Philadelphia, 2008.

⁸ See M. Graziano, The Failure of Italian Nationhood, Palgrave Macmillan, New York, 2010.

⁹ See his interview “Germany has been the winner in the globalization process”, in Der Spiegel 20/02/2012.

¹⁰ M. Simoni, Senza alibi, Marsilio, Venezia, 2012.

workers and a precarious youth, as Andrea Garnero shows in this book. This never ending and contradictory reform process has led to a confused institutional framework and to a weaker economic performance. Moreover, as Daniel Gros argues in a Voxeu column¹¹, worldwide governance indicators show a dramatic worsening under Berlusconi premiership, especially when it comes to the rule of law, government effectiveness, and control of corruption. Corruption and the uncertainty of law remain two major weaknesses in Italy, above and beyond Berlusconi's years. Moreover, apart from the relative resilience of exporters, Italian capitalism is in a deep crisis. Monte dei Paschi di Siena, the world's oldest bank, faces a serious risk of nationalization. The merchant bank Mediobanca is still a kingmaker in a capitalistic system of "compromise without reforms"¹², but it grows weaker and weaker, and inefficient for its shareholders and the general interest. In a shrinking stock exchange market (Italy's Piazza Affari was ranked ninth in the world in terms of market capitalization, and is now only 20th), public companies are losing attraction; Benetton delisted in early 2012¹³. Michele Ferrero, Italy's wealthiest man and the inventor of the famous hazelnut spread Nutella, never listed his company. Italy's fashion and luxury champions are leaving the Italian market: For example, in 2011 Bulgari was acquired by LVMH and Prada went public in Hong Kong. Of course, Italy's strength lies in many successful enterprises, but a lot of them still have a problem of dimensional growth, and even the larger listed companies of Made in Italy have now "decoupled" from the Italian stock exchange: They keep growing, even if the Italian economy does not. Consider the graph below (2007-2012), on the performance of Campari (beverages), Luxottica (glasses), and Tod's (shoes and leather goods), compared with the overall Italian index.

¹¹ D. Gros, "What is holding Italy back?", Voxeu, 9 November 2011.

¹² See F. Barca, *Storia del capitalismo italiano*, Donzelli, Roma, 2010.

¹³ Luciano Benetton, the patriarch of the family, recently considered a "distraction" from the core business their involvement in the privatization of highways.

CHART 2: STOCK EXCHANGE PERFORMANCE OF CAMPARI (RED), LUXOTTICA (GREEN) AND TOD'S (BROWN) WITH RESPECT TO ITALIAN FTSE MIB INDEX (BLUE).



Source:
<http://finance.yahoo.com/>

4. *The missing opportunities.* In consideration of the gloomy prospects of Italian demography, the columnist “Spengler” argued that Italy’s only future is to become a theme park for the pleasure of Asian tourists: “Like the Spartans, the diminishing number of living Italians will remain resident in their own theme park. They will throw pizza, stage operas, blow glass, restore paintings, design shoes, and bottle wine for busloads of Asians. Italy’s government may be bankrupt, and its bondholders may be paid at 70 cents on the euro. The parasites who leech off the Italian state will feel rather like fleas on a dead dog”¹⁴. In order to avoid this provocative—but not impossible—future, Italy’s renaissance will have to draw on its rich unexploited resources. Despite the fact that almost all foreigners regard Italy as an open-air museum, Italy has not invested in its cultural and creative resources. Valentina Montalto in this book argues for a strong shift in the approach to cultural heritage and creative industries, in opposition to the belief that “with culture you cannot eat”, as former Berlusconi’s Finance Minister Giulio Tremonti stated. But Italy has also unexploited human resources: On the one hand, young people are facing a gloomy present, given the current rate of unemployment and a likely difficult future, but they are still unrepresented at most. On the other hand, women still represent a very large pool of unexploited workforce¹⁵ and energy for the Italian economy and society: Alessia Mosca in her essay focuses on some proposals in order to increase women participation and voice.

WHY ITALY MATTERS NOW.

In Europe, Italy remains a relevant country, not only because it is “too-big-to-bail/-fail” as emphasized by markets and analysts, but also for several other reasons:

a) *Italy is the perfect example of non-adaptation*, both in terms of geopolitics and economics, to the post-Cold War international settlement: In 1993, the foreign minister Nino Andreatta highlighted that Italians too often consider Europe as a comfortable bedroom slipper (*pantofola*)¹⁶. As Stefano Gatto shows in his section, this is still true for the last two decades as well: “*in words, Italians always loved Europe. In practice, our country always distinguished for its low rate of incorporation of European directives to Italian law*”. As Alessandro Aresu argues in his essay, Italy in 2012 is still waiting for an external constraint to act and push forward the needed reforms. However, without an awareness of the country’s distinctive characteristics and a change inside the country’s elites, a new external constraint is not going to work.

¹⁴ Spengler, “Italy’s future – a theme park”, *Asia Times*, 4/10/2011.

¹⁵ Italy has the lowest women employment rate in the EU after Malta.

¹⁶ Andreatta was highlighting Italian attitudes to think about Europe in a way to avoid tackling national problems. See Limes 4/1993, p. 13.

b) *Italy remains a political laboratory*¹⁷: Consider, for example, in the last decades, the rise of the tycoon-politician and the rise of the sober technocrat now in charge, but also the relevance of a secessionist and territorial party, the Northern League. Italy could also be considered a laboratory of dysfunctional democracy, of democratic “malaise”, considering the inability to push effective reforms, starting from electoral reform. Considering political parties, Italy emerged from the 2008 election with a presumed two-party system: together, the People of Freedom and the Democratic Party reached 70% (37,3% of the vote for the former, 33,1% for the latter). Four years later, the system is much more fragmented. Of course, a key of the Italian laboratory is now the Five Star Movement: During a severe economic and political crisis, can traditional parties survive? Is the end of 20th-century politics going to provide the final demise of parties? Can a shift to direct democracy provide the answer to the pains of European democracy? The Italian election of 2013 could provide some answers on these issues.

c) *Italy stands as an international warning*. Even if the Italian crisis has a distinctive story, and it is not simply due to the European debt crisis, one key Italian failure is very relevant for the future of a continent strongly divided (both culturally and economically) between creditor countries and debtor countries. Italy is the negative example of convergence, an interesting story for the sceptics of the possible new wave of European integration, because the convergence between South and North never really happened, even if it was targeted by industrial policy and public investments.¹⁸

As a project, “Italy after B.” does not end here. We started with essays on foreign policy, energy, labour reform, cultural heritage and innovation, the technocratic culture in government, and the role of women. In the next months, we are willing to add more chapters, starting from our daily work on the website, www.lospaziodellapolitica.com.

¹⁷ Italy’s social relevance for Western trends is a tract of post-war European history. Charles Maier wrote that Italy was “a bellwether for so many social trends in the West in the 1970s, whether terrorism or the defense of abortion and divorce rights” (“Into an Emerging Order”, in *The Shock of the Global. The 1970s in Perspective*, The Belknap Press of Harvard University Press, 2010, p. 37)

¹⁸ For a strong rejection of a full transfer union on the basis of Italian history, see W. Streeck, “Markets and Peoples: Democratic Capitalism and European Integration”, *New Left Review* 73, Jan/Feb 2012, 63-71. However, as Fabrizio Barca pointed out, between 1995 and 2007, average yearly growth of GDP per capita in Southern Italy reached 1.4 percent, whereas in the North it lagged at 0.7 percent.

// Foreign Policy in the Age of Berlusconi

In order to talk about Berlusconi in a serious manner, one must place him in his historical and geopolitical context. The “visionary folly”¹⁹ that induced him to enter the political arena at the end of 1993 and resulted in a victory in the general elections the following May, which was hardly conceivable for a debutant, would have led to a disaster if manifested just a couple of years before. Only thanks to the parallel end of the Cold War and of Italy’s First Republic (1946-1992)²⁰ could an outsider like Berlusconi aspire to political power. Without that double earthquake, he would have remained an entrepreneur of genius and president of Milan AC, “first sport club in the world for international trophies”, as his official biography says²¹, and subject to the attention of the judges for a number of dubious operations, which played no secondary role in the “visionary folly” leading him to politics. Or better anti-politics: Berlusconi’s idea of service has refused political professionalism and jargon, embraced a radical liberalism which was more often preached than practiced, and is convinced that the country is a company to be ruled by tycoons and that institutions are noisy obstacles. One of Berlusconi’s main successes has been the diffusion of this ideology, in itself already latent in Italians’ commonsense, among the old-new actors of the Second Republic, including his adversaries. But his hatred for democratic procedures was also unprecedented, although often coupled with the exploitation of politics for non-political goals.

As politics retires, or is forced to retire, only primary powers, such as money and influence, reign over the lands freed from the tide of history. In these realms, Berlusconi is outstanding, and his electoral victories - 1994, 2001, and 2008 - have proved it, although they were never enough to grant him a continuous and unchallenged premiership.

In this not-yet-accomplished Berlusconi era, the internal and international scenarios kept on changing enormously, impeding the establishment of a new paradigm. Italian mass parties transformed into parapolitical groups which were dependent on a charismatic leader (Berlusconi, but also Di Pietro and Fini), or into residual groups (such as the Democratic Party, not much

¹⁹ Silvio Berlusconi quoting himself, in his premise to the Praise of folly by Erasmus of Rotterdam published by him, during his first speech as a political leader, on February 6 1994 at the Palaflora in Milan.

²⁰ We follow here L. Caracciolo, *Terra incognita. Le radici geopolitiche della crisi italiana*, Roma-Bari 2001, Laterza.

²¹ The official biography in the website of the Italian government, until November 2011.

more than the last possible refuge for former Communists and former Christian Democrats sympathetic to Communists). The oldest and most deep-rooted party has been the Northern League, now stricken by scandals, which never claimed to be a national party, but simply a Northern one. Hence a double, crucial geopolitical consequence. Domestically, national parties disappeared, not only due to the proliferation of territorial, regional, or macro-regional groups, but also because the two main political groups, People of Freedom and Democratic Party, have not appealed to people beyond their regional strongholds. Can a republic survive if it is based on a weak state and on a democracy without national roots?

At the international level, our political forces, an expression of the only Western democracy devoid of real political parties, represent a key geopolitical weakness, because they cannot refer back to any of the historically established international political families which are the Christian Democrats, the Socialists/Labourists, or the once existing Communists. In this scenario, the last Berlusconi has operated within the environment of the “global” economic crisis - in fact, a crisis not only economic nor truly “global”, considering that from the economy it has spread to the cultural, social, and geopolitical roots of Western societies, but not the Chinese, Indian, or Brazilian ones. In the two decades since the fall of the Berlin Wall and in the two years since the collapse of Wall Street, we have been facing the tumultuous collapse of the Eurocentric paradigm, the key feature of world’s balance of power for half a millennium. For our country, what is fading together with the Atlantic bond is the traditional reference to Europe. The future of the euro is at stake, and as a consequence that of the European Union, on which our technocracy (Carli and Ciampi) in the ’90s, in agreement with the residual political elite (including Andreotti and De Michelis, who had been non-marginal architects of Maastricht) had gambled in order to find a place for the country in the uncertain horizon of the post-Cold War world. This was the last call to the “external constraint”, the doctrine claiming that the interests of Italy should not be determined by us, but by our European partners/competitors.

Taking orders from Brussels, the surrogate of taking orders from Washington, shrank the already small space of our national politics. As Alessandro Pizzorno noticed, “If state budgets are more and more rigid, and economic policy decisions are dictated by the logic of the international economic system, the space for discretionary policy programming approaches zero, and at the same time the great, exhilarating, and tremendous season of ‘political hope’ seems to fade, but, thankfully not with a bang”. In this scenario, “good policy” is increasingly aligned to the meaning and scope of “good management” of the “nation-

company”²². And who better than Berlusconi could be expected to swim in the post-political and post-geopolitical waves raised by both *Mani Pulite* (“Clean Hands” trials) and Maastricht? If the Berlusconi phenomenon is due to the earthquake that has upset the internal and external balances of Italy for the last 20 years, one still needs to assess how much and how such a phenomenon has been the reason of the subsequent worsening of our national crisis.

In order to understand this point, it is necessary to mention the structural factors of the Italian decline, which constrain the action of the political leadership, no matter its color, and on the face of which policy is less powerful than it would seem, according to politicians. A brief catalog of these structural issues include: demographic decline; a stalled economy - in the last decade, Italy has grown by less than any other country of the world except Haiti - with a subsequent loss of competitiveness in world markets (from 4,4 percent in 1994 to 3,3 percent in 2009) the severe burden of public debt, made even more severe by the pains of the euro; the collapse of the education system; the triumph of parochialisms, parallel to the conquest of territory by criminal powers; loosening of social ties and loss of sense of belonging to the nation, or even to a “national company”; delegitimization of public institutions - including the Catholic Church (the only exceptions involving institutions who are often not politically accountable, such as the president of the Republic). All of these features of a “failing state” are worsened by a significant loss of credibility and influence in the world.

This is a depressing sequence of wasted possibilities and forecasted disasters for the country with the most prominent cultural heritage and the seventh strongest economy in the world. This responsibility of such disaster does not fall uniquely on the shoulders of the politicians, though. None of the governments of the post-Tangentopoli era was able to reverse these structural trends, which are in part inherited from the First Republic, and were worsened by its fall. However, there is a specific difference between Berlusconi and his opponents: the so-called “B factor”. In Italian history, personality matters. The first believer in this fact is Berlusconi himself.

Western media never treated a leader of the Italian government with such irony, if not pure contempt. In the past, the reason was his judiciary disputes and the unusual status of media entrepreneur and political leader. Nowadays, Western contempt is due to his ostentatious machismo which could make him vulnerable to the manipulations of his dangerous “friends”, Putin, for instance. Berlusconi’s strength in Italy - i.e., his obsessive desire to distinguish from the political class, to which he claims not to belong - becomes a weakness in the international arena. And since the Berlusconi stereotype

²² A. Pizzorno, *Il potere dei giudici. Stato democratico e controllo della virtù*, Roma-Bari 1998, Laterza, p. 49.

coincides with the negative prejudices staining our image in the world - unreliability, superficiality, and improvisation - all Italians pay the fee. Good examples are, among the non-leftist press, the frequent covers by the *Economist* on the unfitness of Berlusconi to lead Italy, the titles by the *Financial Times* (“Savior is symptom of Italy’s ills”), or the derision for the “clown prince of Europe” in the *Daily Telegraph*. In the French press, Berlusconi won the Oscar for the most unpopular leader in Europe assigned by *Le Figaro*. Concerning the U.S., we should begin by mentioning the cover of *Newsweek* on sex scandals or the brand of “Brothel State” assigned by *Foreign Policy*²³. But the gold medal always goes to the German media, proponents of antiberlusconismo without exceptions. This is not just a matter of image. The bad press of our leaders is a further handicap to Italy’s economic growth and geopolitical influence. Moreover, the international political elites are very sensitive to media. As the WikiLeaks case confirms, the analyses they receive from diplomacy and intelligence are often modeled on journalism, sometimes simplified journalism. World leaders perceive themselves as members of a selective and self-referential club, known to the public as the “international community”. They do not exclude Berlusconi because of his political views, but because he does not even pretend to have one. And after so many years, the jokes became boring. To expert executives who matter or think they matter in the world, Berlusconi has the effect of a cigar-smoking man in a pipe club. They could forgive him, if he were the president of the United States, but as the leader of our “nation-company”, they tend to escape him (Merkel), or, worse, to use him (Putin). When they are used by him, it is because they do not understand his codes. Add to these structural factors, “ethnic” prejudices, and postjudices on his person, and you will understand that the path of our foreign policy in the age of Berlusconi was particularly narrow. Let us try to summarize its specific characteristics.

Berlusconi’s geopolitics is egocentric. The world revolves around him. This is confirmed by the frequent use of the third singular person to illustrate ideas and actions of the president of the council of ministers (his actions). Of course, vanity is a part of leadership. But Berlusconi lacks the *dressage* - Julian Assange calls it hypocrisy - that usually forces the ego of its counterparts within limits that are acceptable to the stakeholders and the public. This egogeopolitics translate itself into the so-called “personal diplomacy”. Berlusconi sees foreign policy as a game of friendship between powerful people. This technique is especially effective with leaders of authoritarian or patrimonialist regimes, from Mubarak (before the “niece” incident and his fall) to Gaddafi. With them, Berlusconi felt at ease, not under constant examination as it happened in the

²³ See, for example, P. Stevens, «Saviour is symptom of Italy’s ills», *Financial Times*, 17/4/2008; N. Squires, «Silvio Berlusconi survives because the alternative is worse in the eyes of Italians», *The Daily Telegraph*, 18/11/2010; for the *Figaro* survey, see «L’image des principaux dirigeants européens», on 2009; the *Newsweek* cover is dated 22/11/2010; «Bordello State» is the title of the analysis by J. Walston for *Foreign Policy*, 14/9/2010.

White House or, worse, in Europe. Putin is his passion, the “alpha male”, the superprofessional of geopolitics, the boss of a large, powerful nation. In such an unbalanced relationship, everyone can imagine the degree of manipulation to which Berlusconi exposed himself and his country. Apart from the overlap between national interests and private interests (on both sides), it is striking that after the Berlusconi-Putin talks (on the Italian side usually attended only by the trusted aide Valentino Valentini), there is never a debriefing for the sake of the Italian foreign ministry, or simply for the sake of posterity. After all, Berlusconi is convinced that Italian foreign policy can be identified with his ideas and initiatives. It starts and ends with *him*. He is the alpha and the omega.

The very same source of worry for the United States—the identification between Italy and Russia, between Italy and Libya—was a matter of pride for Berlusconi. He was a passionately pro-American leader who was proud of his anti-American geopolitics. There is a measure of unconsciousness in this “expert” leadership. The exhibition of amateur politics can help to win elections, but the amateur geopolitics contributes to the loss of political international credibility of Italy, at least in the West. The U.S. diplomatic cablegrams advertised by WikiLeaks appreciate Berlusconi’s diligence to respond to the calls by the Obama administration for greater efforts in Afghanistan. At the same time, they reveal the fear that his private weaknesses have turned him into Putin’s puppet. Because of this, Hillary Clinton activated U.S. embassies in Rome and Moscow to collect “any information concerning the personal relationship between Russian Prime Minister Vladimir Putin and Italian Prime Minister Silvio Berlusconi. Which personal investments, if there are any, could drive their foreign and economic policies?”²⁴. From Washington, Italy appears to be a Little Germany, a partner who needs to be kept under surveillance to prevent it from sliding towards Moscow.

Berlusconi was never very attracted by the traditional Euro-American space. In his mental map of the world, other countries are relevant: Russia, Libya, Turkey, and Israel. Yet, out of the four stars of Berlusconi’s geopolitics, the first three ones are certainly not his discoveries, but have long been a mark of Italy’s foreign affairs outreach. Mattei’s ENI and the Christian Democrats Gronchi, Andreotti, and Fanfani worked to secure Italian interests in Russian and North-African energy (and not only that) before the young Berlusconi started to exhibit as an entertainer on cruises. Italian trade relations with Turkey have certainly improved under Berlusconi, but they have decades of history. And yet Italy still lacks a comprehensive Mediterranean strategy, which seems a necessity, given the demands of our

²⁴ See «Im Visier der Supermacht», Der Spiegel, n. 48/2010, 29/11/2010, p. 96.

“Southern engine” in flows in energy, trade, and migration. As far as Israel is concerned, the honors reserved for Berlusconi are the result of Israel’s need of a European ally more than of Berlusconi’s ability to defend the cause of Israel. The difference with respect to our traditional diplomacy, style aside (which, as we have seen, is substance), lies in the fact that for Berlusconi those countries, especially Russia, had priority over the United States. In crucial times, when it came to choosing between Putin and Obama, but also between Putin and the “friend” Bush, Berlusconi opted for the Russian “friend”. This has made Americans angry and suspicious, probably more than it was worth. The Cold War is over, but the nightmare of the Eurorussian wedding celebrated with gas continues to unnerve a diplomacy which was born and forged at the school of containment, especially if the concerned Europeans are the first three continental economies—Germany, France, and Italy—that are variously involved in pipeline projects linking them more directly to Russia. The fact that Eni has signed the agreement with Gazprom for South Stream during the last center-left government and does not intend to reconsider it under a new premiership, is not a matter of great interest for the US State Department. The same analysis of the State Department, distributed by WikiLeaks, should persuade the often-criticized Italian diplomacy that it is not the only declining actor in the Western world.

Berlusconi’s geopolitics, on the other hand, strikes more because of its neglect of emerging powers, rather than because of the exhilarating combination of sex and gas, so incomprehensible for Americans. A quick glance at the map of Berlusconi’s official trips during his last term reveals that China is too far away for him, as are almost all Central Asian countries, India, and perhaps Brazil. Strangely enough, on the one hand Berlusconi insisted on “commercial diplomacy” while on the other he renounced “systemic” missions, those public-private caravans set up by statesmen from the declining West to open the doors of new markets to hundreds of entrepreneurs and national managers. In fact, “trade diplomacy” for Berlusconi means “personal diplomacy”. The best outcomes for our companies are often found in countries where the prime minister can claim “friendships”, starting from Russia and Libya. These countries have been at the top of the list of his visits: Libya with five, followed by Russia with four, saunas excluded. The presence in Brussels were many more, but it was not a choice, because he was obliged to go there.

Berlusconi’s unconvinced Europeanism marks the strongest inconsistency with our traditional foreign policy. It is likely that superficial matters were determining here as well, such as the

annoyance against Berlusconi by many European leaders, or the refusal to consider Italy one of the Four (France, Germany, and Great Britain) or even the Six (with Spain and Poland) Powers of Europe. This has been a long-standing aspiration of our diplomacy, which has been unable to measure the gap between our self-portrait and the views of others. Berlusconi does not suffer from the inferiority complex toward Germany and France that his predecessors did. These nations have always considered our Europeanism with kindness, because it meant the rebuttal of the defense of our national interests in favor of an elusive “shared European interest” which was not shared by anyone else, of course. Berlusconi governments have broken this “idyll”: Italy repeatedly threatened to put a veto on important issues, to the surprise of the old partners. Despite this, it has not gained any more geopolitical weight in Europe. Hence we must be lacking credibility—a substantial weakness, in view of the crucial battle on the euro.

Another fact to be stressed is the mismatch between Berlusconi’s view of Great Europe and the actual traditional borders of it. In Berlusconi’s odd intuition, Europe must encompass both Russia and Israel, because they belong to our civilization. Enlarging the EU up to Jerusalem and Vladivostok does not seem a priority shared by other leaders nowadays. Not even by Putin and Netanyahu. But at least it marginally improves our very special relationship with the Russians and—a little less—with the Israelis. Finally, our peace (or war) missions: Even on this matter, we have seen more continuity than innovation. Well before Berlusconi, we developed the habit of sending our military around the world without any idea of a national strategy, or, worse, to hide the lack of any such strategy. Why are thousands of our men standing indefinitely in the Balkans? The Lebanon mission never excited Berlusconi because it was the gem of his predecessor Prodi’s foreign policy, so much so that it became even more sterile—and more dangerous—than those in Kosovo or Bosnia. Not to mention Afghanistan, where we landed in order to please the Americans, without in the end obtaining their complacency. There we are also paying with blood for the strategic inconsistency of our (virtual) major ally. In conclusion, five provisional notes. First of all, Berlusconi’s geopolitics—more an intuition than a conception—was less original than it seemed. Second, his personal touch has, on the one hand, favored relevant operations of “commercial diplomacy” in Russia, Libya, and Turkey, but drove us away from the European core and the United States on the other. Third, the worst damage inflicted on Italy is the exposure to ridicule, which is worse than demonization in geopolitics. Fourth, the algebraic sum of these factors was negative, for Berlusconi and for Italy. Fifth, it is dangerous to believe that after him we will



immediately regain our lost credibility, because we had little of it in the first place, and because reputation, like power, takes much longer to build than to destroy.

(The text is an English adaptation of L. Caracciolo, Da Arcole ad Arcore, in “Berlusconi nel mondo”, Limes 6/2010, pp. 7-20).



ANDREA BONZANNI AND MATTEO MONTI

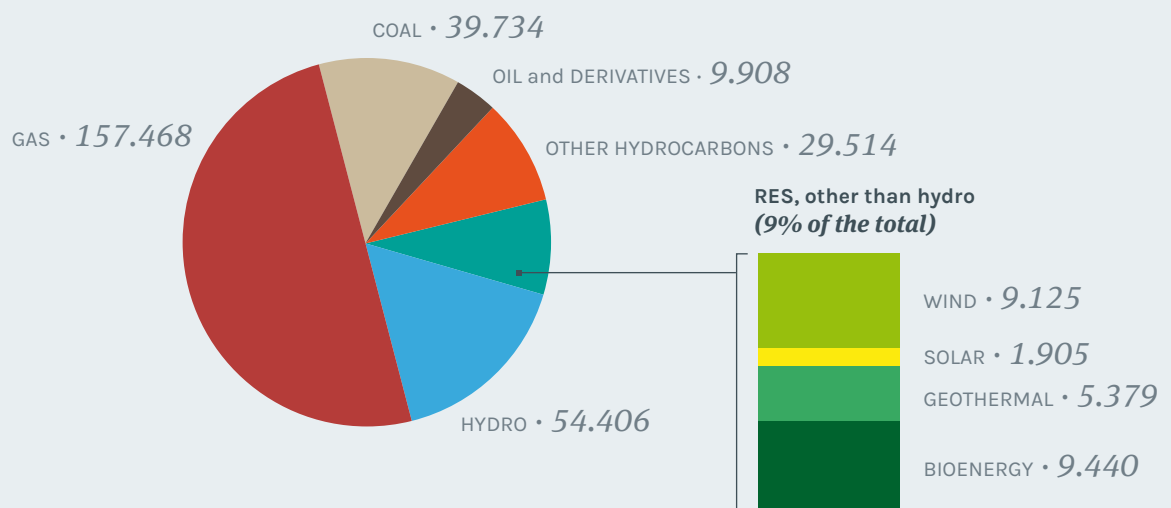
// Italy's Thirst for Energy

INTRODUCTION: THE LEGACY OF THE BERLUSCONI ERA

Amongst the many uncertainties and difficulties faced by Italy after B., energy is far from being a secondary one. Often overlooked in the public debate due to its dry technicality and the pressing urgency of other matters, the subject has been somewhat forgotten and absent from the public debate.

Italy has always faced a difficult energy picture. Unlike other large European countries, Italy could never rely on domestic coal or oil reserves to power its industrial development. This resulted in import dependency and structurally higher energy costs. The situation was worsened by Italy's long-standing opposition to nuclear power, voted out in a referendum in 1987 and never reintroduced. Oil, mostly used in the transport sector, provides for 40 percent of the country's energy needs, closely followed by natural gas, which is the fuel of choice in power generation. Italy also relies on significant electricity imports, especially from France's nuclear plants.

Figure 1: Italy's 2010 gross electricity production, by source (GWh)



Source: TERNA

Figure 2: Italy's 2010 Gross inland consumption by source (MTOE)

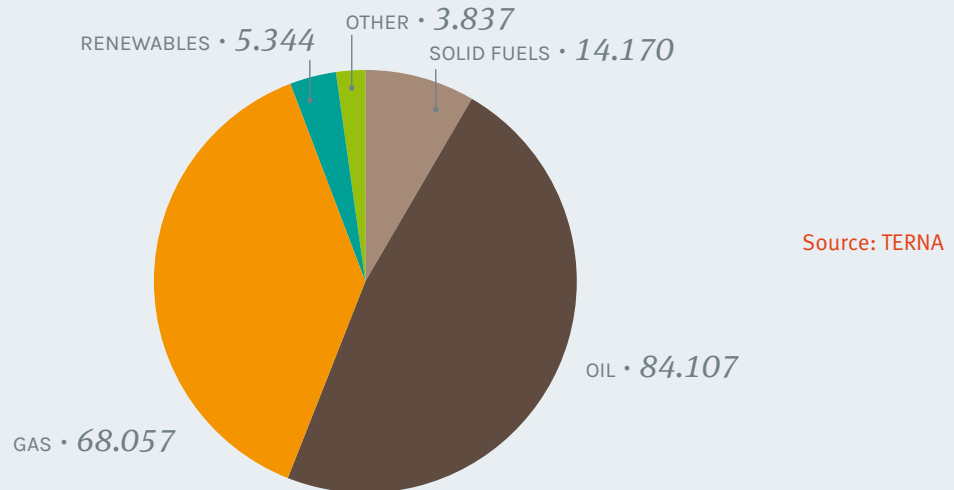
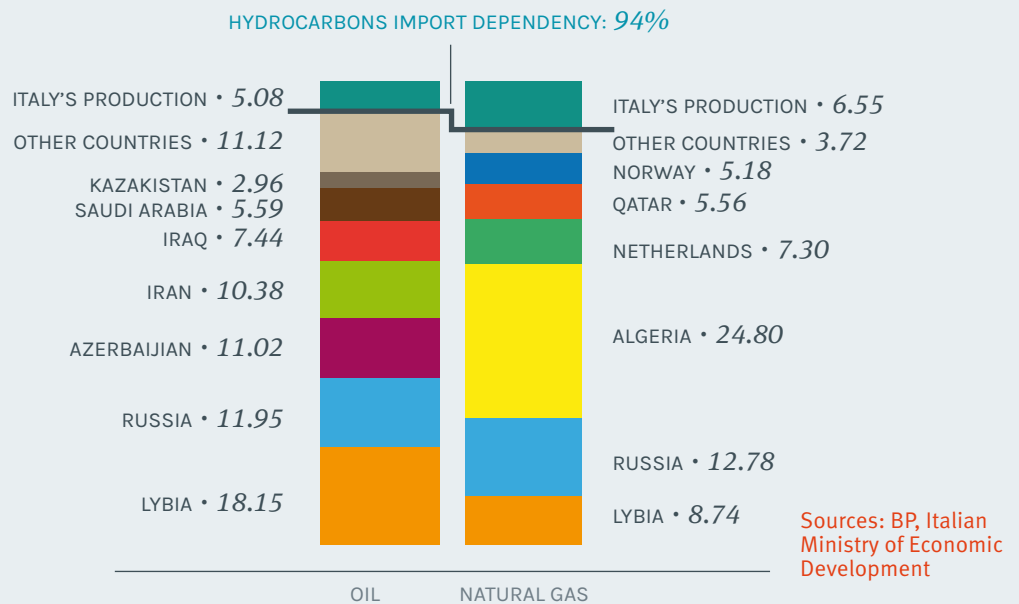


Figure 3: 2010 Italy's imports and national production of oil and gas



Energy is one of the very few areas where Berlusconi had a clear vision with the opening of up to ten nuclear power plants to provide 25 percent of electricity needs. This was matched by weak action on liberalisation and a reluctance to challenge the sector's powerful vested interests—much in mockery of Berlusconi's much-vaunted “liberal revolution” rhetoric. The attitude towards the emerging renewable energy sector was instead ambivalent and not fully thought through, resulting in an unstable regulatory framework that weighed heavily on the public budget and failed to build a competitive industry.

Energy also clearly epitomises Berlusconi's failure in implementing concrete policies beyond skilful communication



campaigns: Italians neatly rejected his nuclear programme in a referendum in June 2011 and are now calling for lower energy prices and market reforms. Similarly, not unlike other policy areas, the opposition parties were unable to elaborate a convincing alternative, opposing Berlusconi's policies but failing to indicate a concrete alternative and often courting local not-in-my-backyard (NIMBY) phenomena opposing energy projects and infrastructure.

POLICYMAKING IN A CONSTRAINED CONTEXT

Given the difficult context, the rapid elaboration of a coherent policy is badly needed. This cannot be created in a vacuum as a number of domestic and international constraints limit options to Italian policymakers. Interestingly, one would even say sadly, none of the elements is the result of direct government action.

EU legislation

First, the Italian energy policy is constrained by the legislative action of the European Union, which has acquired increasingly stronger competences in the field of energy. In recent years, this has translated into a gradual liberalisation of the electricity and gas markets and an ambitious climate change agenda with legally binding CO₂ emissions reduction targets and binding targets for renewable energies. While successive Italian governments have been rather tepid on both objectives and tried to give a different course to EU energy policy, these policies are now accepted and embedded in national legislation, although implementation—particularly with regard to liberalisation—has been slow.

No nukes

Second, nuclear energy cannot be part of the Italian energy mix. The Italian establishment still appears favourable to such an option. Current minister of Environment Corrado Clini and minister of Economic Development (holding the energy portfolio) Corrado Passera stated their favourable views on nuclear energy on several occasions and this position is arguably shared by a majority of Italian energy experts. However, Italians twice voted overwhelmingly against nuclear power and a blatant reversal of popular will would be demeaning for Italy's democratic institutions. Moreover, such a strong public opposition, coupled with Italy's shallow and uncertain regulatory framework, increases the perceived regulatory risk for investors and cast doubt over the feasibility of nuclear power in Italy²⁵.

Turbulent oil market

Third, conditions on international energy markets are not

²⁵ Nuclear plants require huge, upfront investment that is recovered over a period of several decades (for instance, a modern Areva reactor costs around €6 billion and can produce electricity at low cost for 50 to 60 years). As Italy has a track record of reverting decision at the expense of investors—in field of nuclear energy, the 1987 referendum led to the shutdown of the 860MWe plant of Caorso after only nine years of operation—financing and insurance costs are likely to be very high and hardly viable in the current economic landscape.



favourable for large energy importers like Italy. Crude oil prices have been consistently in the neighbourhood of \$100 a barrel and many elements point towards an upward trend in the long run. To make matters worse, oil markets are characterised by high volatility, which makes long-term planning and investment particularly difficult for large energy consumers. These market conditions have dragged the once-prosperous Italian refining sector into a crisis that seems to be irreversible as all European refiners are suffering from overcapacity and tough competition by subsidised refiners in oil-producing countries and emerging economies. Furthermore, high oil prices result in high gas prices, as much of the natural gas imported into Italy is still priced through long-term contracts indexed to the price of oil products.

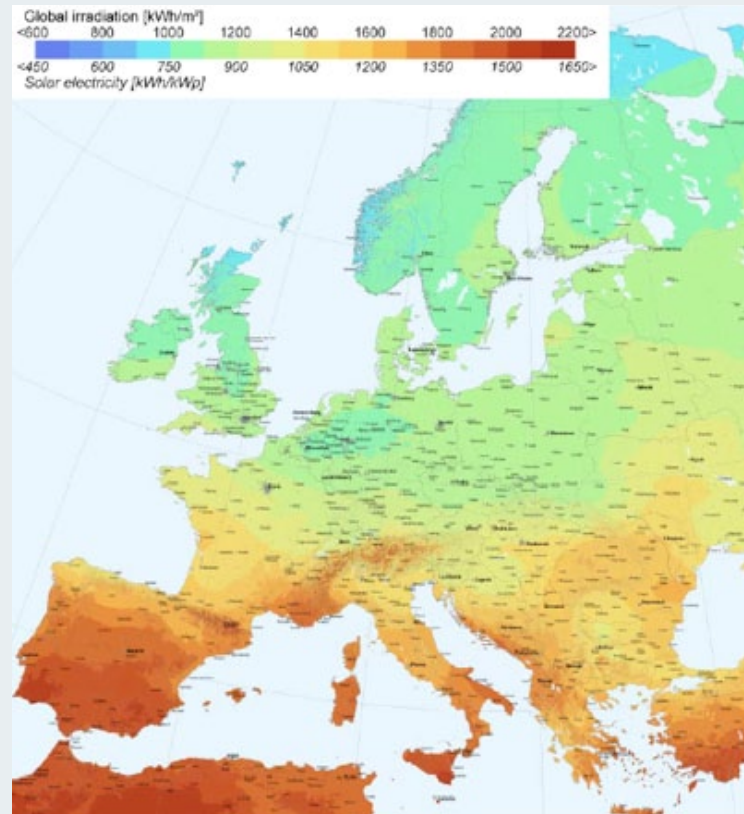
Some good news

On the positive side, Italy can rely on a well-developed upstream industry. Partly state-owned ENI is one of the top global players that successfully operates oil and gas fields worldwide and holds internationally recognised subsidiaries such as the engineering company Saipem.

Such a strong industrial experience is matched and reinforced by Italy's established political relations with Russia and key North African countries, as well as a largely underestimated soft power in sub-Saharan Africa. While Berlusconi's notorious personalisation of international relations made these ties controversial among the public and key international allies, these relations are proving to be more pragmatic and resilient than many expected and will be key to Italy's energy interests in the years to come.

Finally, geography gives Italy an enviable position both with regard to old and new energy sources. As the proximity to key producing areas drove the development of the refining sector decades ago, it can now turn the country into a crucial hub for the European natural gas market. Italy currently receives gas by pipeline from Russia, Algeria, and Libya and is a prime candidate to open up a new supply route from the Caspian region as well as tap global resources of liquefied natural gas (LNG). Similarly, Italy possesses vast potential for renewable energies (particularly solar and hydro) that can be turned into a powerful strategic asset if market conditions are favourable and sound policies put into place.

Figure: Global irradiation and PV electricity potential in Europe



Sources: European
Parliament, Policy
Department A

BROAD DIRECTIONS OF A NEW COURSE OF ACTION

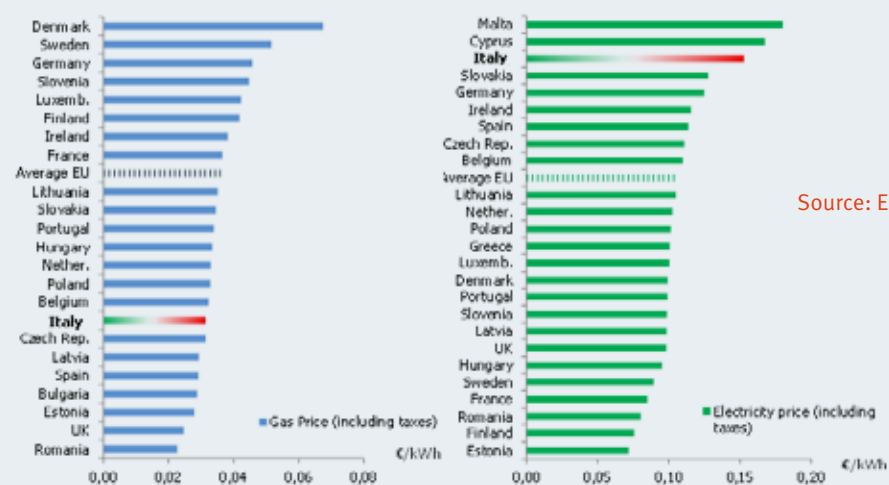
In light of the above, the priorities for Italy after Berlusconi in the field of energy seem simple and hardly controversial, even for a polarised country like Italy. On the one hand, it is necessary to provide energy at affordable prices as a *conditio sine qua non* for industrial competitiveness and households' standards of living. On the other, the issue of emissions reduction must be tackled responsibly to fulfil EU targets and give a contribution to the fight against global climate change. The two objectives are not necessarily compatible and a pragmatic balance must be struck.

Keeping it affordable

The affordability of energy supply is more crucial than it is normally assumed. Energy practitioners and regulators often fail to appreciate the importance of economically sustainable prices for some Italian consumers. The increase in taxation on fuel and electricity imposed by the Monti government's "Save Italy" package generated widespread discontent, triggering turbulent strikes and social unrest. High energy prices are one of the reasons for Italy's low industrial competitiveness and are driving some energy-intensive industries out of the country, in spite of the generous tax breaks and subsidies granted to large

industrial consumers—the recent decision by the American aluminium giant Alcoa to shift production from Sardinia to Saudi Arabia is a perfect example of this trend. As a high taxation burden on final energy prices is somewhat inevitable in current financial and budgetary conditions, pre-tax prices must be as low as possible to keep industry competitive and social discontent at bay.

Figure 4 : 2011's industrial consumers gas (blue) and electricity (green) prices, inclusive of taxes (€/kWh)



Source: EU Commission

Figure 5 : 2011's households gas (blue) and electricity (green) prices, inclusive of taxes (€/kWh)



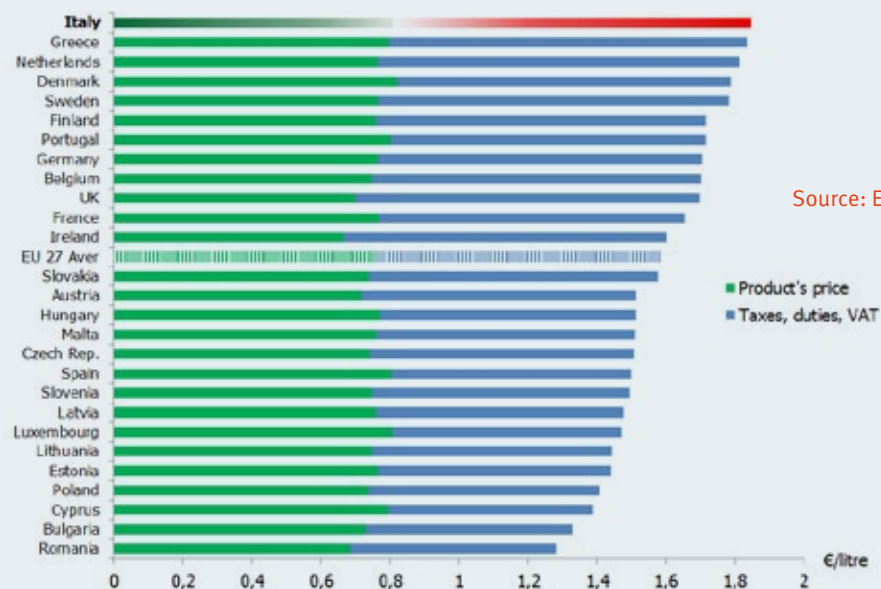
Source: EU Commission

Little hope for the price at the pump

Unfortunately, the options available on fuel prices are limited. The price at the pump is highly correlated to the price of crude and other oil products, determined at the global level on electronic exchange platforms. Measures aimed at liberalising the fuel distribution sector turning petrol stations from exclusive concessionaries of a refiner into independent contractors, as

the Monti government proposed amid the sector's opposition, may stimulate competition but will hardly reverse the general trend. Such a policy may even backfire and run out of business a number of non-integrated domestic refiners who simply cannot afford a further reduction in their profit margins. A simpler option is offered by selected tax breaks, to be carefully granted to poor households and vulnerable enterprises.

Figure 6: Gasoline consumer price in EU countries, inclusive of duties and taxes, April 2012



Making the gas market work

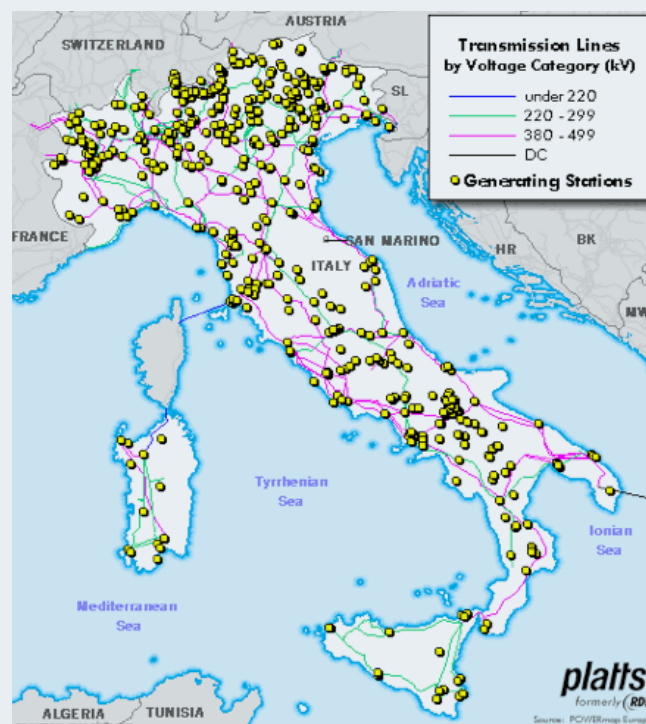
More instruments are available in the gas sector and the Monti government has shown willingness to intervene. The unbundling of network operator SNAM Rete Gas from incumbent and dominant gas company ENI is the measure most widely discussed in public debate and was passed in February 2012, though in a mild form and postponed in time.

Ownership unbundling is certainly a desirable principle. The removal of a potential conflict of interest between ENI and SNAM Rete Gas will deliver sounder investment decisions and improve the quality of the Italian gas network in the long run. However, the idea that this will *ipso facto* bring about a reduction in system costs and tariffs is an illusion. It is not random that the European Commission—which pressed ENI to give up the ownership of some key importing pipelines in September 2011—never pushed too strongly on ownership unbundling between ENI and Snam Rete Gas.

The much-talked comparison with the electricity market, where

grid operator TERNA is fully unbundled and independent, only partially holds. The Italian electricity market is characterised by a more widely distributed generation park, both in terms of geographical location and ownership.

Figure 7: Italy's electricity generation park and transmission network



Source: Platts

The gas market is conditioned by the presence of fewer infrastructures that transport gas priced through the above-mentioned long-term oil-indexed contracts, currently more expensive than gas bought at the « hub » due to a global glut in natural gas production that is depressing prices. The only way to reduce prices is to introduce more gas that can be sold on an open market and will compete with the oil-indexed gas, eventually driving the renegotiation of long-term contracts in a virtuous cycle for the consumer.

Infrastructure, infrastructure, infrastructure

Hence, it is necessary to realise the necessary infrastructure to enable such market developments. This means, first and foremost, increase the number of liquefied natural gas (LNG) terminals. Currently, there are only two operating terminals and as many as twelve projects are awaiting approval or yet to start construction. Favouring the construction of the GALSI pipeline from Algeria to Sardinia and the Trans-Adriatic Pipeline (TAP) to bring into Italy gas from the Shah Deniz field in Azerbaijan could also help, although their effect on competition and gas prices is likely to be lower.

Figure 8: Operative, approved and proposed LNG terminals in Italy



Sources: Italian Ministry of Economic Development, NE-Nomisma Energia

A market with more gas will be more liquid and favour the emergence of an effective infrastructure for trading (or « virtual hub ») on the fashion of the UK NBP or the rapidly growing continental hubs TTF (Netherlands), Zeebrugge (Belgium), and CNG (Germany). This will further improve the functioning of the gas market leading to competitive and transparent price formation mechanisms. Holding a more ambitious long-term view, these developments may turn Italy's geographical advantage into a strategic asset, making the country a key physical hub of an energy source deemed to play a fundamental role in the functioning of the future European energy system.

If carried out, this transformation will also have significant positive repercussions on the electricity market, even in the short-term. As gas-fired plants generate about half of the electricity in Italy, lower gas prices will naturally lead to lower electricity prices.

Infrastructure developments will expectedly (and legitimately) bring about opposition and protests. While a modern nation cannot surrender to blackmail by a minority of citizens, it is crucial that local communities are properly informed and consulted since the early stages of the projects and the wider public opinion is made aware of the benefits of the infrastructure. This should minimise the risk of “unholy alliances” of traditional NIMBY protests and ideological opposition of extremist groups of various kind that thwarted the realisation of infrastructure of various kind in recent Italian history.



Exploiting domestic potential

A framework to deal with public opposition to infrastructure projects can also provide Italy with the opportunity to tap its domestic resources. In spite of the above-mentioned dependency on energy import, Italy holds over 200 million tonnes of oil equivalent (mtoe) in proven reserves of oil and natural gas, mostly in the Southern region of Basilicata and in offshore basins. A document circulated by the Italian government in early January 2012 showed how Italy's oil and gas production could easily be increased by some 20,000 to 100,000 barrels per day.

The Monti government already signalled its willingness to simplify the sloppy and fragmented regulatory framework for exploration and production and lift a moratorium on offshore drilling. However, early mobilisation by NGOs led the government to backtrack, with negative consequences on the country's trade balance, income from royalties, and profit taxes and employment of skilled personnel.

A stable framework for renewables

Substantial attention must be given to the gradual decarbonisation of the energy system. While Italy seems to be on track to meet its EU 2020 climate goals, there is no reason for complacency.

The foreseen achievement of the 13 percent reduction in CO₂ emissions has been facilitated by the significant reduction in economic activity triggered by the economic crisis and the migration of some carbon-intensive industries outside Italy. Similarly, the 17 percent binding quota of renewable sources in the energy mix may be met only because of the contribution from old hydro and geothermal installations as well as a massive subsidisation of solar and wind energy that will be hardly sustainable in the current budgetary situation.

While this sector cannot be immune from spending cuts and austerity measures, it is necessary to maintain some sort of support for the renewable industry to avoid a destructive collapse of the sector and be ready to meet some foreseeable more ambitious EU targets in the future. The reform showcased by Corrado Passera in April 2012 after months of behind-the-scene negotiation with his cabinet colleague Corrado Clini is a step in the right direction as it preserves returns on past investment and sets less budget-heavy criteria for new projects.

In the longer run, preference should be given to market-based mechanisms which do not simply aim at increasing the share



of renewable generation capacity but attempt at integrating the electricity produced from renewables into the power system in an efficient way. As renewables keep growing, the power system will have to adjust to large amounts of uncoordinated variable power generation from solar and wind to avoid unsustainable explosions in costs or the risk of system collapses. Policymakers so far appear to be relying exclusively on the sectors' operator, trusting the capacity of generators and network operators to elaborate appropriate technical solutions, called by non-experts with the all-encompassing catch-phrase "smart grids". Nonetheless, close monitoring and some intervention on the tariff structure may be necessary in the future. Thinking around these issues should start early, perhaps taking stock of the lessons of the on-going Electricity Market Reform (EMR) in the UK and other market design reforms across Europe.

Another point worth making is that, whatever mechanism is chosen, the primary objective of policymakers in this area should be the provision of CO₂-free electricity. Claims that renewable energies, in light of their domestic and labour-intensive nature, have positive ripple effects on the rest of the economy are constantly made and pushed by interest groups. However, Italy has never enjoyed a position of leadership in this sector and does not look well positioned to climb the learning curve. Moreover, experience across Europe shows that the subsidisation of labour-intensive manufacturing and installation of renewable energies equipment is dubious policy. Manufacturing inevitably moves where labour is cheaper unless subsidies continue to be granted, while installation can hardly be sustained after an initial boom. In particular, the solar sector, where Italy holds the greatest potential, is witnessing a dramatic shift of the global supply chain to China.

Energy efficiency: An unexplored low-carbon option

The achievement of carbon emissions reduction targets and Italy's due contribution to European efforts to stop global climate change should also pass through little-discussed policies in the field energy efficiency, an area in which Italy has already achieved significant results. Unlike renewables, these measures could also provide much needed relief to small and medium-sized enterprises, in both traditional sectors such as construction and innovative segments such as energy and environmental audits, smart metering, and consumer electronics. Unfortunately, the initial roll-out of these measures inevitably depends on the injection of financial resources, usually public funds, which only a relaxation of current austerity policies would make possible. A glimmer of hope is given by the recently approved EU Energy Efficiency Directive,



which may provide the right framework to unleash resources and facilitate private investment in the field.

CONCLUSION: A CREDIBLE VOICE IN THE DEBATE

This article examined the framework of Italian energy policy and discussed a series of realistic measures to reduce energy costs and contribute to the reduction of CO₂ emissions in the sector. The main ones are:

- Bring more gas into the market and diversify suppliers by favouring the development of new infrastructure, especially LNG terminals.
- Remove regulatory hurdles impeding a responsible development of Italy's domestic energy resources.
- Reform support schemes for renewable energies introducing greater cost awareness and attention to their integration into the power system.
- Promote energy efficiency through building renovation, installation of meters, and installation of new efficient equipment.

Encouragingly, the elements above are among the key point of the Strategia Energetica Nazionale (SEN), a draft strategy document written by the ministry of economic development in the course of 2012 and currently under stakeholder consultation.

Having carried out these reforms, Italy would boost its credibility among its European counterparts. This would crucially empower Italy to shape a framework that is friendlier to its needs and specificities. The moment is particularly apt as the debate at the European level is particularly intense. Matter such as the reform of the EU Emission Trading Scheme (ETS), targets for emissions reductions and renewables after 2020, as well as further “Europeanisation” of energy policy are being discussed with deeply divergent positions and no convincing common vision.

Italy, which is already recognised in the sector for its strong and competent regulators, its knowledgeable technocrats and independent experts, could provide a significant contribution to this debate. Ultimately, energy could be another opportunity for Italy after Berlusconi to restore its international standing and regain the place and consideration it deserves.



// The Rise and Fall (and Rise) of the *vincolo esterno*

1. **A Faustian nation.** *Vincolo esterno* means “external constraint”. The term is used to describe a political theory, championed by public servants coming from the Bank of Italy since the 1970s, which argued that any real change in the Italian economic, political, and social system could be delivered only through the help of international constraints, and particularly the shared goal of a common European future. According to Isidore of Seville, “*Vincula a vincendo, id est artando dicta, eo quod constringant atque retineant; vel quia vi ligant: The constraints are so named from the action of vincere, because they constrain and immobilize, that is to bind strongly*” (Etymologies, V, 27, 6). So, what is the role of constraints? Do they act as an armour that strengthens or as a chain that imprisons?

In order to understand the Italian view on the *vincolo esterno*, the text of reference is the autobiography of Guido Carli²⁶, given the influence that this public servant has had on the Italian public debate, particularly through the founder of the influential newspaper *La Repubblica*, Eugenio Scalfari (Carli wrote for Scalfari’s *L’Espresso*, with the Keynesian *nom de plume* “*Bancor*”). In his work, after taking into consideration his struggles as the governor of the Bank of Italy from 1960 to 1975, president of Confindustria (the Italian association of entrepreneurs) from 1976 to 1980, and minister of Treasury from 1989 to 1992, Carli praises the external constraint three times for Italy’s salvation during the 20th century. According to his own Faustian image, two souls inhabit the chest of Italy: on the one hand, the simple management of public enterprises by the State; on the other, a system of basic rules that leaves substantial space for private initiative. Carli wants Italy to abandon the former and to embrace the latter. Thanks to the miracle of the external constraint, Italy during the Cold War has been able to maintain a precarious balance, not succumbing to a violent revolution or to a triumph of vested interests. The first constraint Carli examines is the country’s adherence to the Bretton Woods institutions, where the international, embedded liberalism was able to tame the pessimism on the Italian democratic evolution (given the strength of the Italian Communist Party after World

²⁶ Guido Carli, *Cinquant’anni di vita italiana*, written with P. Peluffo, Laterza, Roma-Bari, 1996.



War II). Second, he remembers the crisis of the 1970s that led to the creation of a new constraint, the European Monetary System. Finally, he admits that “the task we failed repeatedly in recent decades” still awaits his generation (that is, octogenarians), in the 1990s with the Maastricht Treaty. Carli had to face the usual criticism about Italy after the economic miracle, i.e., its classification among the “anomalous” democracies. The way to political normalcy has been some kind of obsession for Italy’s ruling class: the idea that the country should one day end up with a parliamentary system similar to England’s, like a “normal Western democracy”, and leave once and for all a path of political uncertainties. The need for normalcy also had a political meaning, considering that Carli’s own party (the Christian Democracy) had been in power without discontinuity from 1948 to the 1990s when it broke up due to a series of corruption scandals. So Italy, or the “Republic of Parties” (thus called by the influential historian Pietro Scoppola in 1991), was not a normal democracy with governments of alternating colour, given the informal ban of the Italian Communist Party from any role in government. Carli himself acknowledged, up to a point, that not all in Italy’s anomaly was wrong. In a 1976 conversation with Eugenio Scalfari, Carli—partly ironically—defined Italy’s as “Europe’s Brazil”, praising the opportunities implied by society’s movements: “We are extremely advanced concerning values, ideologies, and needs. We have Europe’s leading feminist movement, the strongest Communist party, the most revolutionary student movement, the highest number of graduates in Europe”. Italy’s dilemma, in those years, was twofold: first, how to maintain a political balance, given the spread of terrorism and social tension; second, how to foster growth with a strategy avoiding recurring devaluations and inflation. The Italian external constraint was born in pursuing these goals, while in the same years Italy’s social stability was handled through more public spending and more public debt. Before turning to post-Cold War Italy, we should remember that the term “constraint” is neutral. Given that there is no such thing as an “unconstrained” existence, every constraint becomes clearer only according to the specific historical and geographical situation we are considering. A constraint can be a sign of a country’s relevance: for example, consider the presence of the Vatican and of a strong Communist Party in post-World War II Italy. A demographic constraint (an aging population with a low birth rate, not entirely replaced by young, prolific, and integrated immigrants) can establish the need to revise the pension structure. The constraint of the international spread of sovereign debt may result in interdependence and contagion: Consider Italy’s rise to international relevance in 2011.



2. Cappuccino communism? Guido Carli's specific task of Italy's modernization through the "external constraint" has recently echoed in economic circles: Even before the failure of Lehman Brothers, Italy's economic performance was remarkably poor. Italy has surely suffered a "lost decade" in terms of economic growth since 2001, and time has been lost also for Italian society, for the Italian political system, for investments in education and research, for labour relations, workers' salaries, and so on. During the Italian "lost decade", Italian politics has not been able to exploit a favorable international economic environment. This failure has been mostly, but not exclusively, a political one, and it is related to both Berlusconi's coalitions (who have been in power from 2001 to 2006 and 2008 to 2011) and the center-left (2006 to 2008): They were both unable to run an effective government, even if their responsibilities are different given the different time spent in power. This gloomy outlook on Italy precedes the Global Recession. At the end of 2007, the President of the Italian Republic, Giorgio Napolitano, faced a series of hard questions during a Q&A meeting in his US visit. At the time, headlines reported the different economic performance—both in terms of economic growth and foreign investments—of Italy and Spain. The former was stalling, while the latter (also due to a real estate bubble) was rising. Bruce Gelb, president of the Council of American Ambassadors, asked the Italian president the following question: "I'm wondering, is Italy still suffering from a kind of hangover from 'cappuccino communism', where they can't get straight that there's a thing called market economy and you've got to open up your country and let people start businesses, entrepreneurial activity?"

This colorful idea of "cappuccino communism", even if it may sound stereotypical and might be based on some wrong assumptions, can give the right perception on what the elite of the external constraint has tried to change about Italy. Of course, there is no lack of entrepreneurial spirit and entrepreneurial activity in Italy. In fact, the opposite is true. The problem of Italy's business structure has more to do with the growth dilemma of Italian enterprises, which are designed for exports but are often unable to reach the dimension needed to compete in international markets (but sometimes able to have a global reach even as SMEs, such as in the case of the so-called *multinazionali tascabili*, "pocket MNCs"). Other effects of what could be perceived as "cappuccino communism" are a high tax burden for both labour and firms, a reduced tax rate for rents, which encourages rent-seeking, a slow and ineffective system of civil law (in terms of enforcing contracts, Italy is rated 158 out of 183 countries in the Doing Business 2012 ranking). And, of course, to all this it is necessary to add the burden of corruption, political patronage, and the control of the state territory by



mafia organizations in at least three (Calabria, Campania, and Sicily) out of 20 regions, considering also that the powerful 'ndrangheta from Calabria has been able to infiltrate also Italy's richest region, Lombardy (the exact term used by state investigations in National Anti-Mafia Agency is "colonization"). According to Carli, Italy needed a constraint, and particularly the task of a shared European responsibility, in order to "embed the market economy in the living fabric of society, then put it into the mindset of the ruling class, encouraging the emergence of a new ruling class". So, Italy's ruling class is bad and democracy shares a part of the blame. According to Carli's Faustian image, the will of the Italian people, in its "pure" and organized (through political parties) form, "always wants evil". But the Italian soul is not absolute (free from constraints), it is connected to internal and external elements that can build an alliance for the better. Italy's economic miracle after World War II was connected with the ability of some firms to export in international markets, and this feature of industrial Italy has remained sound across the decades. However, Italy's inability to find an effective balance beyond the economic miracle (which, as every miracle, came to an end) was mainly compensated through the devaluation of the lira, the national currency, supported by the class of Italian exporters. This could not go on forever. Thus, after "fifty years of Italian life", Guido Carli knew that the Italian force has "done evil evermore, and yet created not good", to paraphrase Goethe again. Italy has not become "normal", then or now. The key reforms championed by Carli with the adherence to a new phase of the European project (specifically, changing the "material Constitution" and dismantling the mixed economy) have not been implemented properly, and the very meaning of some of these reforms could be questioned, in a new domestic and international environment.

3. Recovery and reform. On 12 October 2011, at the opening of the conference "Italy in the World, 1861-2011", the president-elect of the European Central Bank, Mario Draghi, in one of his last addresses as governor of the Bank of Italy, said: "It is important that we all are convinced that rescue and recovery can only come from Italians themselves. One of our atavistic temptations mentioned by Alessandro Manzoni is to wait for an army to cross the Alps and solve our problems. As in other moments of our history, this is not going to happen. It is important that all citizens are aware of this. It would be a tragic illusion to think that the fundamental interventions may come from outside. It is our task to provide them".

Draghi delivered an important speech not only in economics, but even more in terms of political psychology. According to Draghi, Italy must not entrust its own salvation to others,



and not even to the illusion of being “too big to fail”. In this view, European co-operation can only operate on the basis of the shared responsibility of the member states. Italy must be responsible: It is up to us. Theoretically, Draghi’s remarks are perfectly reasonable, but we should not forget that “the Eurozone crisis is a microcosm of the global imbalances that plague the international economy”, and since now the calls for a shared responsibilities have not proved, both on a European and on a global level, able to solve these problems decisively or even figure out a consistent exit strategy. In the 18 years separating Carli’s autobiography and Draghi’s speech, the reforms outlined by Carli were deemed insufficient or incapable of affecting Italian development. In fact, during the so-called Second Republic, the term “reforms” was often used, ineffectively, and covered with political rhetoric. There is a “reform paradox”, according to the jurist Gustavo Zagrebelsky: “The Italian political system works badly because it is not able to take decisions; the Great Reform is a Great Decision; so the Italian political system will never be able to take such a Great Decision as the Great Reform”.²⁷

4 A mixed economy. To accept Draghi’s argument on internal accountability, we should at least try to get rid of the long bibliography of clichés and complaints concerning the Italian national character, for which there is an unsolvable Italian “case”. According to this theory, close to racism, Italians enjoy an enduring inability both to stick to the rules and to pursue long-term projects. They are unworthy of confidence because they do not deserve it. So, governing Italians is useless, as Mussolini once said. Others should do that, not the Italians themselves. This stereotypical view can shed some light on the task of the “ruling classes”, in order to give substance to the external constraint. The “ruling classes” should complain loudly, for the Italian character and for the inadequacy of the ruling classes themselves, apart from the complaining ones, of course. As Antonio Gramsci wrote, *il volgo sono sempre gli altri* (the populace are always the others). If this self-stereotypical view of Italians gets worse rather than better, there is no space for reforms and, much worse, no space for public life. However, Draghi forgot to mention the other belief, the one stating that the (financial) army across the Channel or across the Atlantic is the sole cause of our problems. This is the belief of the end of politics as a self-fulfilling prophecy. Whatever we do, the technocrats of the ECB will be able to impose their recipes, about which we have no right to talk. So, if the Italian GDP decreases and if the quality of life goes down, the blame is always on other people’s financial capital and our only task is complaining about it. Of course, it is crucial to relate the Italian case and the broader issues of capitalism, but this is only part of the story, not the

²⁷ Quoted in P. Scoppola, *La repubblica dei partiti*, Il Mulino, Bologna, 1991, p. 400.



whole of it, particularly if we think that domestic politics can and should play a role in tackling the problems of Italian society. On the other hand, Draghi's idea of internal accountability is a principle that needs to be derived from reality and not divorced from it, to borrow Hans Morgenthau's formula: In financial markets, "interventions" do come from outside and the simple idea of a "domestic task" disconnected with a currency could be flawed, as we have learnt at our expense.

In order to provide a deeper analysis of the Italian case and the flaws of the external constraint, I would turn now to two elements highlighted by Carli: the Italian mixed economy and the material constitution. During the conference "Less State and more market?", held at the Agency of Research and Legislation²⁸, the manager Vito Gamberale has provided some interesting reflections on the Italian experience of privatization. First of all, Gamberale argued that privatizations had a limited impact on the reduction of Italy's public debt. He also indicated that the IPOs of some former public companies have improved their efficiency, making them "the primary Italian companies able to compete internationally". However, he provided four key lessons we can draw from the Italian case of privatization in the 1990s: a) the need to privilege acquirers in the same core business, particularly in manufacturing; b) the need to insert lock-up constraints (at least five to seven years); c) the obligation to earn-out for the public seller in the case of a selling in 10 to 15 years; d) the prohibition to sell to buyers who place the debt on the acquired company. If dismantling the mixed economy was really needed for Italy's modernization and development, the last constraint seems crucial as a reality check. For example, this is what happened with Italy's national telecommunication company, Telecom Italia. Telecom Italia still has an important presence in South America, particularly Argentina and Brazil, but the fact that it was taken over twice during operations based on debt, without a decent industrial strategy, severely lowered its grasp in terms of innovation and research, crucially undermining its ability to compete with other major companies. The simple privatization of everything is not the solution. This means that Guido Carli's goal has not yet been reached and that, furthermore, it seems far from perfect, because many asymmetries can undermine the privatization process and generate schemes of privatization of profits with socialization of losses. As the jurist Guido Rossi aptly said, Italy has moved "from a mixed economy to a confused economy". Moreover, if a further wave of privatization could be advised by financial markets and consulting companies given the current pressure on Italy and the euro, we should not forget that this is happening in a geoeconomic and geopolitical environment where the overthrow of the mixed economy does not seem a top

²⁸ See V. Gamberale
"Meno Stato e più
mercato? Le liberalizza-
zioni e le privatizzazioni
vent'anni dopo", in
"Cosa resta da privatiz-
zare?", AREL Seminari
1/2011.



world priority anymore.²⁹ A different stance could be argued in the case of ENI (whose total privatization would be a mistake, given its geopolitical relevance) and also Finmeccanica, active in the aerospace and defense industry, though badly damaged by recent cases of corruption. Thus, speaking in the abstract, “killing the mixed economy” is neither helpful, nor efficient or rational. This goal is not suitable to all situations, and it must be declined while taking into proper consideration Italy’s history and society.

5. Berlusconi’s constraint and public action. The long history of the Berlusconi government (1994, 2001-2006, 2008-2011) is also the story of an external constraint. It has worked this way: I do nothing, Italy gets worse, so it is other people’s fault. Who are “the Others”? Depending on the convenience of the moment, this could mean anyone: communists and judges above all, but add to them at least 9/11, speculators, the Chinese, journalists, rating agencies, and so on and so forth. The “others” are the external constraint, i.e., the supposed binding force. This was the so-called “material Constitution” of the Second Republic, because “material” has to do with the historical and social development apart from the formal constitutional structure. Although Berlusconi’s constraint might have, and actually has, found the voters’ consent, it has the disadvantage of a Ponzi scheme: No one takes responsibility for anything. The purpose of the government, instead of governing, becomes this “blame game”, not because it is useless to govern, but because it is easier to indicate scapegoats. There is another downside: Despite the Great Men Theory, differences in history are never made by just one person. So the concurrent belief that everything is the sovereign fault of Berlusconi, and that once he is removed, Italy will start flying, is self-righteous and flawed.

This does not imply that single Italians cannot do a good job. During the years of the Italian “miracle” in the 1950s, the banker Raffaele Mattioli amazed his colleagues with his perfect knowledge of Shakespeare’s works, and Carli himself—as a central banker—was in a way able to stabilize the lira with his reputation and personal connections. Now the smart people whom we call *riserve della Repubblica* (former prime ministers such as Giuliano Amato and Romano Prodi) are waiting for the next election of the president of the Republic, and the last Italian crisis is tackled with the last rise of the external constraint. Enter Mario Monti, the professor praised as the “new Ciampi” (who, to be fair, was actually able to move from a technocratic to a full political role). But the real point here is that the weight of the State could not be carried on by a few prestigious personalities. When a nation agrees only in the faith of her inability, it tends to commit suicide, perhaps taking morphine—in the form of

²⁹ See, among others, S. Lazzarini and A. Musacchio, “Leviathan in Business: Varieties of State Capitalism and Implications for Economic Performance”, *HBS Working Paper*, No. 12-108, June 2012.



illusions, such as “the new ruling class”, a German in every city office—to suffer less. To be fair, what has lacked in Italian society in the last decades has been present in other moments of our history, so it is not a matter of the Italian “character”. There is no better evidence of this than Enrico Mattei’s history. Mattei, an entrepreneur, a Christian democrat, and also a former official in Italy’s Resistance during World War II, was asked to dismantle the Italian Petroleum Agency (AGIP), a state enterprise established by the Fascist regime. Instead, he decided to reorganize it as the Ente Nazionale Idrocarburi (ENI), which became a cornerstone of Italy’s economy, implemented by Mattei’s bold moves in the oil industry (including his famous and controversial battle against the “Seven Sisters”), with the initial crucial help of Ezio Vanoni, De Gasperi’s minister of the economy. Nowadays, ENI remains Italy’s largest and most influential MNC, with a crucial presence in Africa, and its market capitalization is about 20 percent of the overall stock market in Milan. Mattei was a nationalist, and he often emphasized his own biography from rags to riches, of a man who was born poor and was able to rise to the top, even through harsh tactics and corruption of politicians. But his top clearly meant public service. He famously went to the banker Mattioli asking for a loan for AGIP’s expansion, and, when Mattioli refused, he gave his own company and estate as collateral, with this explanation: “I would rather be poor in a rich country than be rich in a poor country”. This was the key spirit of the Italian “miracle”. It certainly involved a belief in the role of the state, not as a distant entity, but as a collective enterprise. On the contrary, much of Berlusconi’s rhetoric since 2008 has focused on the private wealth of Italians, opposed to Italy’s debt as a country. In the case of Mattei, his private wealth was merely a step toward a different idea of Italy, a nation able to rise from the humiliation of fascist and World War II for the sake of the national interest. In the case of Berlusconi’s Italy, private wealth appeared an end in itself, unable to be related with a collective project of public action, which is an internal constraint. The history of the Italian external constraint, therefore, has been closely tied to the ability—and willingness—of self-restraint, coupled with constant nostalgia about “the way we were” and increasingly vague expectations of new Messiahs.

In these terms, the history of the external constraint has an international relevance. What I try to argue about Italy is that a new psychology of the external constraint is dangerous, because it links the admission of collective inability with the adamant belief in the supposed superpowers of “others”, the saviors. The same process is at stake when we believe in the magic powers of crises. Consider the key failure of European ideology in answering the question “Why does Europe exist?”



They say Europe exists because, if it ceases to exist, war will come back. This answer was perfectly understandable for people like Alcide De Gasperi, Konrad Adenauer, Robert Schuman, Altiero Spinelli. Fifty or even 60 years later, it is unsustainable. This is absurd: You simply cannot tell young unemployed people in their twenties or thirties that they need Europe because otherwise the Nazis will come back and because “populism” needs to be defeated.

6. Self-limited sovereignty. Once upon a time in the '90s, the end of the state was everywhere. We all know the fairy tale: Sovereignty over the territory no longer matters. Once upon a time in the '90s, there was no space for public companies, bailouts, or sovereign wealth funds. Today, we know that the end of the state is nonsense. The presence of sound institutions capable of governing is increasingly becoming a key issue for democracy, which is a system of values, rules, and balances not limited to the right to vote. In an uncertain scenario, if politics leaves the stage, the voids are always filled, and certainly not by aliens. As David Singh Grewal has shown, there is a “network power” of states, institutions, companies, and NGOs in which international standards emerge and are negotiated between the various actors. The system shows its weakness when bargaining comes to a halt and remains there for years. States are important actors in this game, but they need an idea of national interest, in order to follow Enrico Cuccia’s advice: “We must play with the cards we have in our hands”. The space where the game is played is (also) politics. The worst bluff, even worse than pretending not to have anything in your hand and folding, is to ask to be deprived of your cards through a decree. As Grewal wrote: “We are left with the need for a collective political response to our most urgent problems and the recognition that this political response will be mediated through something like our existing state system”.³⁰ States are not dead, but it is true that their sovereignty can be limited. They could engage in an experiment of shared sovereignty, such as the European project, but they should know what it means and they should be able to explain it to their citizens, otherwise you can have decades of philosophical debate on the European *demos* and then Germans and Greeks casting racist prejudices on each other. Every experiment of change has to face the reality of history and exit should always be an option. However, sometimes the issue is not just limited sovereignty, but even more “self-limited sovereignty”, such as in Italy’s response to the global economic crisis and to the European debt crisis under the Berlusconi government. During the Monti government, even in a severe crisis, the approach changed from “self-limited sovereignty” to a shared sovereignty that has not been able to put Italy back

³⁰ D.S. Grewal, “The Return of the State”, *Harvard International Review*, Winter 2010, p. 43



on the track of growth yet. But thinking that Italy could make a sovereign decision about the European Central Bank as a lender of last resort or about Eurobonds is out of the question. What is at stake is having a voice on these and other issues. Berlusconi made one thing clear: “Self-limited sovereignty” is suicidal. Pursuing self-limited sovereignty is like trying to add a fourth option to Hirschman’s famous “voice, exit and loyalty”. But this is not an option: It is just suicide.

On the international level, it seems pretty clear that “global solutions for global problems” are not around the corner. Our experience is that, when we increase the number of decision makers, the decision becomes more difficult. As Pratap Bhanu Mehta wrote about the 2011 G20 meeting in Cannes: “A collection of governments which are dysfunctional at home cannot collectively compensate for each other’s failures. They can only exacerbate them”³¹.

Contemporary Italy stands as a good political prophecy on two main issues. First, when the soundness of the political process fades away, bad things happen. When public debate is too centered on the support or opposition of one man, and when it lacks a common and consistent view of the national interest, national interest disappears and democracy could be endangered. Second, sometimes it is not only the government’s fault or the markets’ fault. It is both. Thus, Italy seems to be the opposite of an emerging country. It is rather a submerging country. This, too, is a relevant prophecy for the West. We all like economic “miracles”, but not all citizens are investors in emerging markets: The real problem is where to go and what to do when miracles end, because all growth miracles sooner or later come to an end³². When the Italian “miracle” ended, all sides of society were unable to unite the nation through a consistent goal. This is true for the weight of corruption in public offices (not only at the state level, if we simply consider how much money is moved by the construction business in small cities and the enormous cost and low quality of the health system in most Southern regions) and for the inefficiencies of the public administration in all circles, but this is true as well for the reduced amount of R&D investments in private companies, which damage their own ability to specialize and compete. The Italian case can also help us to understand that blind public spending is not always the solution: The last wave of spending of the Berlusconi government, since 2008, was not anti-cyclical, also because it was both focused on the wrong sectors of the economy and damaged by corruption.

³¹ P. B. Mehta, “Cannes of crisis”, *The Indian Express*, 3/11/2011

³² See D. Rodrik, “No more growth miracles”, *Project Syndicate*, 08/08/2012.

7. An internal constraint. In 2001, Lucio Caracciolo wrote a book called *Terra incognita* (Roma-Bari, Laterza). He argued that after the Cold War, Italians should try facing their new



geopolitical reality. Being an important space for American strategy in Europe was a comfort for Italy after World War II and, given this comfort during the Cold War, Italians could afford avoiding a long-forgotten nation-building. What really matters for a nation is an internal constraint, the convincing answer to the question “Who are we and why are we together?”. One can choose not to answer and just muddle through. But, after all, somebody has to pay the bill and cannot always afford to be asking for other people’s help. Or, sometimes, another’s help does not make sense. Consider the most important example for the Italian state: mafia’s control of Italian territory. The writer Roberto Saviano published in 2010 an article entitled “For an honest vote the UN should intervene”, where he insisted on the effects of mafia infiltration inside political parties. “It would be sad”, he wrote, “if Italian citizens, Italian voters, should ask the UN and the European Union for support, in order to guarantee a right which should be considered normal in every Western democracy: a regular election”. It is ridiculous to think that the UN officials would come and rescue us, solving the mafia problem. This is never going to happen. On this, Draghi has a fair point: It is up to us to solve our problems. Concerning the domestic problems of the Italian state, such as mafia organizations, there is no external constraint but rather conflict: Criminal organizations have fear, violence, and liquidity (a crucial element during a severe crisis) on their side; on the contrary, the State must insist on dynamics of trust and public welfare, on the effective collaboration between its powers. Both factions have their generals. Both compete for the loyalty of new generations. But this war involves the Italian state and the Italian citizens, not the UN or the European Union. Yes, we are all part of the human race, but this is our conflict, not the world’s.

The new governor of the Bank of Italy, Ignazio Visco³³, clearly recognized the weight of the mafia problem for Italy’s international reputation and economic growth, and he also underlined other specific Italian shortcomings, on the digital economy, knowledge-based growth, and youth employment. The Bank of Italy, the traditional elite of the external constraint, has updated its categories. For Italy to start over, the same thing should happen for other ruling classes (in business, government, academia, politics, journalism), but the main answer must be generational and political. For sure, a simple upgrade of the external constraint, based on the flawed assumption that other people will always come and solve one country’s domestic and political issues, would not be a sound answer.

³³ See his remarks in Limes, *L’Euro senza Europa*, QS 2010, pp. 40-41.



// Italy and Europe : *Je t'aime moi non plus*

After 50 years of apparent love with Europe, during which the Italian society has been showing an uncritical but also uninformed attachment to European integration, Italians are discovering now the new frontier of euro-scepticism, an attitude practically absent from the peninsula till the current crisis.

Italy has a difficult relationship with her own national identity: In fact, it is rather a country of 100 municipalities, each one feeling as a small capital in its own right, than a solid project of national integration.

Mistrust (and legends) between Northerners and Southerners are widespread, and Rome as capital of the country is as respected by the rest of the country for her impressive culture and history as well as despised for her political connotation. In general, every one mistrusts also his own neighbour. All in all, the pride to be Italian is more linked to the glories of the past than to the hope of a better common future.

In this context of fragile national identity (take also into account that Fascism monopolised for long patriotism, giving it a negative meaning in Italian minds), Europe had become the antidote to our weaknesses: Since Italy is not a real nation, Italians have often dreamt of a European identity to compensate for Italian weaknesses. For 50 years, the sentence "Europe said so" was a sufficient final argument for any discussion.

A European fatherland would in this way replace our insecurities as Italians, giving us a nod of approval, because we did not feel secure enough on our own.

Since her Unity in 1861, Italy was never really considered as an "equal" partner by the great European powers: It was, at most, a "second best" of European power. The search for credibility has featured our history as unified nation, making us ready to please rather than assert in the international arena. Our colonial adventures were less than a success, but we went for sand in order to show the rest of Europe that we were also "a power". Fascism tried to enhance Italian pride and assertiveness, but it revealed to be a bluff.

After World War II, Italy was reborn from her ashes building on two axes: European integration and a linkage to an external



superpower—the competition between the US and USSR was won by the former.

Since 1945, all major changes in Italian society and politics were determined by external, not internal factors: The Italian society on its own is at pain managing change—we always needed a Wall falling, or Brussels and Washington imposing to introduce whatsoever reforms.

Before the fall of the Berlin Wall, it was common referring to the concept of “limited sovereignty”: After that, the concept had disappeared, to return now, referred this time to Europe, not to the US–USSR struggle.

For 50 years, Italy has benefitted enormously from European integration, even though it could have benefitted even more: Through the EU, Italy finally got the recognition as being a “great country” that it had been pursuing for decades. Thanks to the EU internal market, Italian companies grew and brought back an impressive richness to the country, which in a few decades moved on from being relatively poor to one of the most affluent in the world. The structural funds could have done a lot to decrease the gap between the North and South, but their use, unfortunately, has not been optimal (but this was our failure, not Europe’s). Finally, and more importantly, Europe has often been the engine of change that our society, always struggling with our conservative Latin nature, was unable to build on its own.

In other words, Italians always loved Europe. In practice, our country always distinguished for its low rate of incorporation of European directives to Italian law. Till 2011, most Italians (including its politicians) have shown an embarrassing ignorance of the European reality. The fact that Italians usually think the European Parliament has no powers, or the European Commission is a “technical body” show they missed most of the pictures screened in Europe in the last 50 years.

The European Parliament is where the scenarios of European future are designed: The EP does not manage the present day, but how Europe will be ten years from now. These scenarios will arrive at the national parliaments only when it will be too late to modify them in depth. Hence, the EP is an environment where you should send competent and skilled representatives, not second choices, as is usually done by the Italian political parties.

The European Commission may not be the government of Europe, but through its power of initiative it has enormous prerogatives in designing the Europe of tomorrow: For us, a Commissioner in Brussels is less important than any anonymous undersecretary in Rome. Wrong: The Commission is in practice far more powerful than any individual government in Europe. How many Italians are aware of the fact that most European



law is, in fact, Italian law, directly applicable in the country and in Italian courts, and prevailing over national law? How many Italians are aware of the fact some 50 percent of Italian legislation is of European source?

For 50 years, we loved Europe without understanding it.

Now, due to the crisis, we think that Europe is evil, and if we could come back to the “wonderful sixties”—oh, boy, that would be nice.

However, the global scene, in which Europe is itself in difficulty to maintain its status (in fact, we are condemned by the emergence of new powers to lose part of our role in the world) has so evolved that there is no way back. We go further, or we decline.

Is there room for an Italy without Europe? Giving our shoulders to Europe, we would join the perfect storm: With a globalised economy, an astronomical debt, a low competitiveness, a low positioning in the added value chain, a low attractiveness for international investments, and high costs of our productive factors, we are simply not competitive enough. We are not North, we are not South: We are in a dangerous middle, where Italy and a new Italian lira would only be destined to further decline, with a jump back of two generations in our standards of life—: simply not acceptable.

The only thing we can do is to take finally Europe seriously, since out of it we are going nowhere.

It would have been so much better undertaking reforms in a conscious way during the years when it could have been easier: Our political system preferred not to do it, following a craziness according to which instead of making choices, we could do one thing and its opposite, paying everything with more debt. A way NOT TO DECIDE.

The fruit of many years of “no decisions” are finally evident to the population, and reflect the total failure of the so-called Second Republic, in which nor a falsely liberal centre—right neither a centre – left without clear borders have been able to deliver a new Italy. Open to the world and at peace with herself. The result is measurable: Twenty years of minimal growth at an average of 1 percent have brought us out of the comfortable situation we had reached until the '80s, which seem now “fabulous” compared to the scarcity of the present (and the darkness of the future).

Europe has been, in fact, a wasted opportunity: European integration gave us access to larger markets, larger financing, best practices, and we chose closing on our own, in the grip of a narcissistic syndrome revealing insecurity, rather than real pride. In this way, we paid the price of Europe without fully benefitting of its advantages. Not that smart.

The huge debt we created since the '70s was only reduced by the



euro, bringing down financial costs. The common currency was a blessing for our finances, till the crisis exploded in 2011 and years of reasonable management of our public finances went to ashes in few months.

The limited credibility of Italy in Europe was seriously affected by the over-presence of Silvio Berlusconi in our political scene: much an Italian character to be understood in the rest of the world (many of its “jokes” did cost millions for Italian citizens). However, even a serious person like Romano Prodi was not fully trusted by the European partners, always ready to mistrust an Italian (“He’s good, he does not even seem Italian”, a sentence we Italians abroad are even too familiar with).

Mario Monti has succeeded in reducing this gap, at the cost of his popularity in Italy (which is not his purpose, anyway). After decades of limited or frustrated reforms, putting a remedy to everything in one year or so is practically impossible. However, Italians blamed the Professore for all the problems, as if he had been responsible for decades of bad governance.

Is Monti the face of Europe in Italy? Yes, he is. Is this a “horrible” face? No, it is not. Politicians don’t necessarily have to entertain or excite us. Media politics has been detrimental to the “res publica”, Italy being one of the best examples of it. Charismatic leaders may be recommendable, but too charismatic leaders may be catastrophic when leadership leads only to bluff or inaction.

Italy is much better served by a “quiet approach” to governance, by the ability to undertake reform long due without watering them down in front of the first opposition, by leaders finally accepted by their partners and not being mocked.

It is true, one of the limits of current Europe is its too “technical” approach, represented quite figuratively by Prime Minister Monti and BCE governor Draghi.

But frankly, how much better have the traditional Italian politicians behaved in the last decades? Who can be satisfied with the results obtained in terms of governance, public morality, and leadership by the First and, even more, the Second Republic?

In this sense, having for the first time in years political leaders with a degree of acceptance in Europe and in the world is a healthy development. However, this is not sufficient: The experience of the “technical” government is by definition limited in time, and has to be relayed by a new political approach to Europe and the world starting in the next legislative period (2013–2018).

There are three possible reactions to the difficulties faced by Italy in the current economic environment:

1. **Negationism:** The world and Europe have problems, but not Italy—that’s what the last Berlusconi administration tried to



sell (quite unsuccessfully, as shown from 2011 onwards). This view is largely a minority now, after having been defended for a while by many;

2. Return to full national sovereignty: If Europe and the euro were the problem, why not go back to the previous situation, to the lira, and maybe even outside the EU, in order to build on our strengths (monetary and political independence, economic competitiveness in some sectors, creativity and design)?

The problem of this approach is that it is unrealistic and short-sighted. It is certainly true that in Europe many have not given proper consideration to the peculiarities and strengths Italy has, and also to the efforts undertaken in the last year (but also in the previous decades, Italy had 17 years of consecutive budgetary surpluses, 1991–2008, not exactly what “irresponsible governments” would do).

However, the Italian dream, consisting essentially in jumping back to the reality of the wonderful '60s, is not feasible: Most of the benefits accumulated in that period of glory were the result of the opening of the European markets, of the stability given by the EC and the centrality of the Western economy in front of a peripheral rest of the world (Soviet bloc and the now emerging countries, even the Third Worlds, were still colonies).

Giving up the euro and the EU would simply mean, for Italy, undertaking a way back from the acquired living standards towards a pauperisation that it is difficult imagining as being sustainable.

Our debt (120 percent when expressed in euros) would automatically reach the 200 percent or more when expressed in a weak currency. Most of our companies (the ones dealing with the rest of the world, hence all the important ones) would collapse under the burden of their own debts in euros, now under control but unaffordable when expressed in a weaker currency: The regain in competitiveness would probably be insufficient to compensate for this factor, and would meet further obstacles facing trade barriers even in the EU internal market, the most important element for our companies; even more importantly, the stimulus for change and reforms coming now from Europe would be sterilized, bringing us back to full dependence on our own internal decision mechanisms—precisely the ones that brought us in the situation where we stand now.

In a word, beyond the charms of a neo-nationalism, giving our back to Europe would equate to taking away the wrong tooth: Instead of a miraculous situation, we would face a much worsened scenario, in which we would simply be marginalised from the international arena, becoming a third-class economy.

3. Reasserting Italian interests in Europe: This is the most logical way, but also the most difficult one. We need to take Europe seriously, and assert Italian interests in their context as



we NEVER SUFFICIENTLY DID in the last decades.

Instead of dreaming to return to the times of full national sovereignty (not aligned with the current realities), Italy could accept the challenge to fully take part in the scheme of shared sovereignty, which is anyway the one prevailing right now. We could choose to SUFFER THE CONSEQUENCES of shared sovereignty without a say, or contribute to it, defending our national interests with the decision, firmness, and strategic vision we lacked so far as a country.

This would portray Europe for what it is: a splendid engine for change, modernisation, and competitiveness, the best tool available to accompany our development as a 21st-century society.

As an Italian in Europe, so many times I had to answer to these questions: “Why has Italy lost the way to Europe? When will she be back? Europe needs a strong Italy!” This is a common position among our European partners. During the last two decades, the “Berlusconi anomaly” (as it is seen abroad) might seem the easy explanation, even though we know it was a very partial one.

In a scenario “after B.”, in which Europe itself is in great difficulty, Italy may certainly contribute to the re-launching of the European process (a must, the alternative being the endless continuation of the already evident European loss of influence in the world).

In order to do that, Italians and Italian institutions have finally to understand that:

1. Sovereignty has definitely moved towards a co-responsibility between Member States and Europe, the so-called shared sovereignty: Running against this is vain and counterproductive. What has to be done is incorporate this dimension in our minds and in our policies, adapt them to the 21st century, and not attempt to come back in time;

2. This implies an in-depth renewal of the political class who managed the First and Second Republic, to give way to a new type of political representation, the first in Italy that would be AT EASE WITH GLOBAL SCENARIOS and thinking global when acting local.

3. This renewal would affect all levels, but a renewed attention should be given to the European Parliament that, far from being the irrelevant body Italians used to consider, is exactly the political assembly where the scenarios of the future are being designed. The EP works on what will become reality 10 years from now: Since our politicians neglect this, when these measures, already European law, enter into our legislation



(they are of direct application, they are Italian law already), it is too late to bring any change. Our political system, obsessed by getting seats in Rome, simply missed the point there, and **one of the main sources of Italian law is completely ignored by the Italian legislators today.**

4. The European decision making should become an integral part of our vision of the political processes: Europe is not, as still considered also by *Farnesina*, a branch of “foreign policy”, but internal policy, affecting the life of everyday citizens in thousands of different ways. The follow-up of European affairs and the development of Italian contributions to it should evolve accordingly.

5. Since Europe itself requires regeneration, Italy should contribute to the design of a new Europe: Instead of accepting only proposals from others (fiscal union, banking union, control of budgets, all things that make a lot of sense but cannot remain isolated), Italy should be proactive in proposing elements complementary to: a real political union; political parties; European elections not run by national but real European parties, with European agendas and candidates; and direct election of European authorities, starting with the President of the European Commission.

Europe may work again for us only if citizens of Europe reconquer the ownership of sovereignty, not coming back to its full expression by Nations, a necessary but also insufficient body to respond to the challenges of globalization, but developing **increasing degrees of ownership on European sovereignty.** As anticipated, this third approach is more complex: It does not open the way to miracle solutions to solve all our problems tomorrow, nor proposes a utopian return to a past that does not exist anymore. It requires innovation, courage, new minds, and new profiles: **few of the current politicians are in a position to do so.**

Major change came to Italy always through a strong influence from outside our borders: The unification was strongly supported by external powers, and the two world wars brought enormous changes and obliged a conservative Italy to adapt to the new world; we grew with, and thanks to, Europe till 2009, even though we were not able to use the European tool sufficiently to change in-depth our country. Now the moment has come to **fully use Europe in our own interest as a country.** If we decide so, the European interest can become again the Italian interest. It is up to us—the world and Europe will not wait for us.



// Women in Italy after Berlusconi

I would like to begin this analysis of the issue of women in the post-Berlusconi Italy with a survey of some events that happened in 2011, a relevant year in many aspects. First of all, the cultural one: the birth of the movement “Se non ora quando” (“If not now, when?”) and the great event of February 13 have created a momentum, supporting a general awakening of consciousness, at the individual and collective level. Luckily, I might add, it was about women and not just for women, that is to say, about their role in society, the evolution of the family, about public policies encouraging women labor participation and the re-balancing of the weight—both a burden and an honour—of family chores and care (whether children or elderly) between the two spouses.

The events that have occupied the media debates between the end of 2010 and the beginning of 2011 (Berlusconi’s sex scandals) were, paradoxically, the spark that led women to act collectively, to organize and voice their protest against a degrading image of women. To highlight, above all, the dignity of women, starting from examples of womanhood that have nothing in common with those reported on the front pages of newspapers during the so-called Ruby-gate. The exasperation of early 2011 led to constructive proposals, and we witnessed the beginning of a change. Major national newspapers created sections devoted to women characterized by themes and styles very different from those to which we had been accustomed: no more recipes, Paris fashion shows, celebrity gossip. Debates on other issues have emerged: women employment in Italy and Europe, welfare policies implemented by other countries to meet the demands of working mothers, the cost of kindergartens, the pay gap between male and female workers with the same responsibilities, the presence of women in the top ranks of society and politics. The awakening and participation of civil society has been accompanied (perhaps not just by coincidence) by relevant achievements in legislation. In July 2011, a bipartisan proposal I drafted with Lella Golfo, MP of People of Freedom (Berlusconi’s party), became law. The proposal, designed to establish parity of access in the boards of listed companies, was

later renamed by the press “Pink Quotas in Boards”. In 2009, only 6 percent of the members of firm boards of administration were women, while our law requires a mandatory percentage of at least 30 percent of the less represented gender in managing and supervisory boards of listed companies. Like all measures requiring “quotas” (of age, gender, ethnicity), this should clearly not be considered the end. The very existence of such measure stresses the problematic context in Italy, where a woman twice as good as a man has half the chances to obtain the same post. However, it is a useful starting point and it can produce a real change that will hopefully serve as a driving force to trigger another deeper and slower change in the culture of our society.

The transformation of the context could also be understood by the lowering of the “level of tolerance” of the commodification of the female body and the use of women as a sexual objects in advertising: Several associations and online groups have filed a number of complaints to the IAP (Advertising and Marketing Communication Self-Regulation Council in Italy), often winning the cases. The most renowned case is perhaps the advertising campaign by Alfa Romeo for the car “Giulietta”: The IAP ordered its ending for the violation of Article 10, which requires respect for human dignity in all its forms and expressions and forbids all forms of discrimination³⁴.

Other judgments, though on different topics and having different constraining power, have been issued by many TARs (regional administrative courts) on the issue of gender equality in the local administration councils: The dissolution in July 2011 of the council of the City of Rome because of too scarce women representation gathered much attention, but this also happened for the council of the Region of Sardinia, and recently, smaller but no less important cities such as Bisceglie, Viterbo, Ercolano, and others.

In November 2011, the most important political event of the year for Italy meant a substantial step forward for the battles and claims of women as well. The establishment of the Monti government has substantially helped this process: Three qualified women have been appointed to key ministries such as Labour and Social Affairs, Justice, and Interior Affairs. Moreover, the prime minister in his keynote address described women and youth as “the two great wasted resources of our country”. More precisely, Monti said: “One of the factors that distinguishes Italy in the European context is the greater difficulty for women to enter or stay in employment. Ensuring the full inclusion of women in all aspects of working life, but also in the social and civil development of the country, is a priority not to be deferred. It is necessary to address issues concerning the work-

³⁴ The judges wrote: “The jury found that the advertising campaign undoubtedly seeks and obtains an emotional identification between the model of advertised car and a female figure strongly subordinated to the ‘male’: a ‘female’ who asks to be tested, and then eventually discarded or kept. The use of seven different models in the narrative construction, in the opinion of the jury, emphasizes this stereotype, denying women identity through the multiplication of female bodies”.

private life balance, promotion of natality and the sharing of responsibilities related to maternity or paternity by both parents, and to examine the possibility of a reduced taxation for women". Finally, Italy has a government that talks about gender equality at work, family support, paternity leave, and considers these issues a priority.

Is Italy now a country for women? Unfortunately not, not yet. The road ahead is long and the severe economic crisis is likely to cause a disturbing setback, for two reasons.

The first concerns the debate. It took a lot of work, time, and resources to be able to occupy a prominent place in the agenda of the media and politics. Now we face the risk of considering the instances of women secondary to the "urgent" challenges that our country is facing. This would be absolutely wrong: *The Economist* recently said that in the emerging economies of East Asia, women have been the true driving force of the economic boom (with 83 working women for every 100 men) and that, more generally, in recent decades the increase in female employment has contributed more to global GDP growth than China did. The World Economic Forum has found a clear correlation between gender equality (as measured by indicators such as economic participation, educational attainment, health guarantees, and political empowerment) and GDP per capita. Taking care of women, improving their professional status, introducing a strict principle of equal treatment, of political conciliation, is not, therefore, a distraction from the serious economic crisis that is affecting us. It is, rather, a real opportunity for its resolution. As long as this view will not be fully integrated in people's mentality, Italy will remain a country without growth and with a low birth rate, which will lead to a spiral: Less is consumed, less is produced, less prosperity is enjoyed by everybody.

The other risk is that the confidence of women in the likelihood of finding a job will decrease drastically, because the crisis is touching women in the first place and with most intensity, since they are laid off first in times of economic contraction despite being a fundamental resource. Currently, the female employment rate in Italy is approximately 46 percent (far from the 60 percent imposed by the Treaty of Lisbon), even behind Romania, Slovenia, and Poland. The unemployment rate is about 9.7 percent higher for women than for men, but not far from other European countries, also affected by the crisis. However, these two statistics alone tell little about the real employment situation of women. We must add a third parameter, or the "inactivity rate" of women who not only do not currently have a job, but who also stopped looking for it. In Italy, this figure is worrisomely high, reaching 48.9 percent of women, compared with 26.7 percent of men. This is obviously a warning signal

we can no longer ignore. Nearly half of Italian women have even given up looking for work, for several reasons: because in earlier attempts the labor market has always rejected them, because there are no sanctions for uncivilized practices such as the “voluntary” dismissal³⁵, because at some moment in their lives the vast majority of women in the country are asked by the state of affairs to choose between being a mother or working.

We must work harder to make clear that encouraging women labour participation is not just a matter of social justice or respect of the principles enshrined in our Constitution, but it is also an economic priority, an essential step to start the process of “growth” that is loudly demanded on the front pages of newspapers every day. It is absolutely necessary that from this moment of reflection on our resources, we will decide to take the opportunity to finally invest in the enormous wealth that our country has left unused for too long. It is necessary to give incentives to companies to invest in the recruitment of women and tax breaks to encourage access to the labour market. Moreover, we need measures that allow a more peaceful combination of family and work, in order to redistribute the burden of care and family chores more equitably within the family. Italy is currently in a peculiar situation: It displays a very high percentage of unemployed women with a very low birthrate. We must reverse the trend, because, paradoxical as it may seem, many researches show that where women are more likely to work, the birth rate grows proportionally.

I have deliberately avoided discussing Silvio Berlusconi’s troubles because, more than talking about the damage caused by his politics and by the cultural system that perhaps he has not created but certainly made legitimate, I am interested in putting forward what women have accomplished despite that hard social context. I am interested in the policies necessary to solve the deep problems of our country. We need to work on these issues, in order to make clear for everyone that investing in women means a huge gain for all of us tomorrow.

³⁵ Some employers when signing the contract also force women to pre-sign a voluntary dismissal declaration to be used at the employer’s will, when, for instance, she gets pregnant or the employer decides to dismiss her without just cause).

Prodi’s government inserted an electronic system to fight against pre-signed “voluntary” dismissals in 2007; Berlusconi’s government abolished the norm that has been again put in place by Monti’s government (see A. Garnero’s section).

// The Never-Ending Reform of the Italian Labour Market

“We must reform now”. This is the mantra of most Italian politicians on both sides of the arena, but what must be reformed and how is often unclear. Surely, the labour market is one of the few reforms on which everyone agrees (but not on the how). Despite several reforms, Italy still suffers from a sclerotic and segmented labour market that combines high level of inactivity (especially among women) and unemployment with relatively high level of (perceived?) insecurity. Statistics in Table 1, indeed, show that Italy, as well as most of the other PIGS (or, to put it more politely, GIPS) but also France, has a high rate of long-term unemployment (50 percent of the unemployed), high youth unemployment rate, the lowest participation rate of women and older workers, and, lastly, the second lowest employment rate, just before Malta, very far from the 75 percent goal of the EU2020 strategy.

Table 1: Selected labour market statistics in Italy and other EU member states

	Italy	Spain	France	Germany	UK	EU 27
Employment rate (20- to 64-year-old) (b)	60.7	59.6	68.8	75.9	73.4	68.0
Temporary jobs %	13.1	23.8	14.5	13.9	5.9	13.1
Part-time %	16.5	14.3	17.9	25.8	26.0	19.3
Unemployment rate (a)	10.7	25.1	10.3	5.5	8.1	10.4
Youth unemployment rate (15- to 24-year-old) (a)	35.3	42.9	23.4	8.0	21.6	22.5
Long term unemployment rate (b)	5.3	10.3	4.1	2.7	2.8	4.5
Weekly working hours (full-time) (b)	39.4	40.8	40.3	41.9	41.3	40.8

Source: Eurostat. Note: (a) data for July 2012; (b) data for 2012 quarter 1.

Youth, in particular, suffer from a difficult situation. Students stay at universities too long (see Table 2), while few young people are employed. There is clearly a missing link between the studies and the labour market. This is partly due to labour and demand factors³⁶ but also to an institutional setting that especially protects older workers (or the insiders) at the expense

³⁶ However, one should pay attention before drawing quick conclusions. It is often said that Italy has too many graduates in humanities and too few in hard sciences and that youth are unemployed because of “useless curricula”. However, the survey on graduates by Almalaurea shows that philosophers or “men of letters” or political scientists are not faring so badly. On the other hand, up to three years after graduation, graduates in science, chemicals, and pharmaceuticals and lawyers seem to be doing worse in terms of labour market opportunities. These figures should be interpreted with caution: One cannot know if there is a direct causal link and one cannot know if employment coincides with the field of studies or not. However, the data are interesting for a country that always complains of having few graduates in science

of younger ones (outsiders).

Moreover, two other important features characterize the Italian labour market: the high level of undeclared work in the black economy (estimated by the ISTAT at around 17 percent of the total Italian GDP) and the regional disparities (especially between north and south) that make the policy-making at national level even more challenging. Due to space availability we will not elaborate on these aspects (for a proper analysis see Lucifora, 2003 and SVIMEZ, 2001).

Table 2: Youth labour market outcomes in Italy and other EU member states (2010, %)

	Italy	Spain	France	Germany	UK	EU 27
Youth 15-24						
Education	59.5	45.1	56.8	56.8	39.1	53.3
Employed	20.5	46.2	24.9	30.8	47.6	34.1
Looking for a job	7.9	5.1	17.8	8.9	11.6	9
Youth 25-29						
Education	14.4	9.5	11.8	4.7	5.7	9
Employed	58.8	75.6	64.9	77	77.7	77.2
Looking for a job	10.1	6.9	21.9	10.6	7	10.3

Source: CENSIS (2011) on LFS

Looking at the statistics, labour market outcomes have generally improved in the last two decades: After the Treu and Biagi reforms in 1998 and 2003, employment grew significantly and the unemployment rate halved. However, the crisis has shown that this might have been just a “honeymoon effect” (Boeri and Garibaldi, 2007): Most of the new jobs created were temporary and have been shed at the onset of the crisis. Moreover, productivity growth has stalled, well below the growth in unit labour costs, and earnings growth has been moderate.

A motionless country

Italy suffers both from high inequality and low social mobility. This is due to a number of phenomena, the most important of which are the disproportionate increase in top income shares, the positive correlation between parents and offspring educational attainment, and, also, some institutional features OECD (2011) reports that top income shares increased by more than a third in recent years. The richest 1 percent of Italians saw their share of total income increase from 7 percent in 1980 to 9.4 percent in 2008 (compared to 6.5 percent in Denmark, 8.9 percent in France (data for 2006), and 17.7 percent in USA). The income of the richest 0.1 percent increased from 1.8 percent to 2.6 percent in 2004. This is due to a greater role of self-employment income (their share in total earned income has increased by 10 percent since the mid-1980s, and self-employment income seems more predominant among high earners, contrary to many other countries), to the fact that the higher-paid worked more hours, and also to the higher percentage of weddings involving same earning-class spouses (one third of rising household earnings inequality in Italy is explained by societal factors).

The focus is often put on the conflict between fathers and children. In reality, there is a strict alliance between parents and children to keep the privileges, the properties, and often even the job. Low social mobility is very visible when looking at education performance of young Italians. The probability of graduating depends very much on family background: Only 10 percent of graduates come from families where the father has elementary school background (40 percent of the adults between 45 and 69), while 60 percent of the graduates come from families where the father has a high school or university degree (but these are just 30 percent of the adults between 45 and 69). Moreover, even graduates with high degrees have lower salaries and labour market performances if they come from families without high degrees. On top of that, the institutional setting is often a multiplier of low social mobility. First, the inheritance tax is very low: It was abolished by the Berlusconi government in 2001 and re-introduced by the Prodi government but at relatively low levels compared to US or UK (in Italy, the inheritance tax rate is 4 percent for relatives in a straight line, 6 percent for the relatives up to the fourth degree, and 8 percent for any other subject, and the relatives in direct line also benefit from an allowance of 1 million euros (i.e., no taxes up to 1m Euros). On the contrary, in the United Kingdom such tax rate is 40 percent over 325,000 pounds of inheritance and in some US states it's 55 percent above \$ 1 million). A second institutional setting influencing mobility involves job attainment; for the self-employed, especially in the liberal professions, having a parent employed in a particular area definitely helps the children to follow the same career if they want to: This happens thanks to the transmission of values, experience, and technical knowledge from parents to children, but also thanks to the contacts and networks that can help reduce the barriers to entry within a regulated profession. In some cases, there are even rules that explicitly promote access to the profession to family members: Pharmacists, for example, can leave the shop to their children, even if these are not pharmacists (as it is required to the children of non-pharmacists). Social mobility is not just a matter of social justice but also a driver of growth: If young people feel discomforted by the lack of possibilities to climb the social ladder, they will not make the necessary investment in human capital and take risks. On the other hand, those who know that they will inherit the job or the wealth of the parents will not have any incentive to improve themselves either. Overall, Italy will lose stamina and hope.

A fragmented labour market

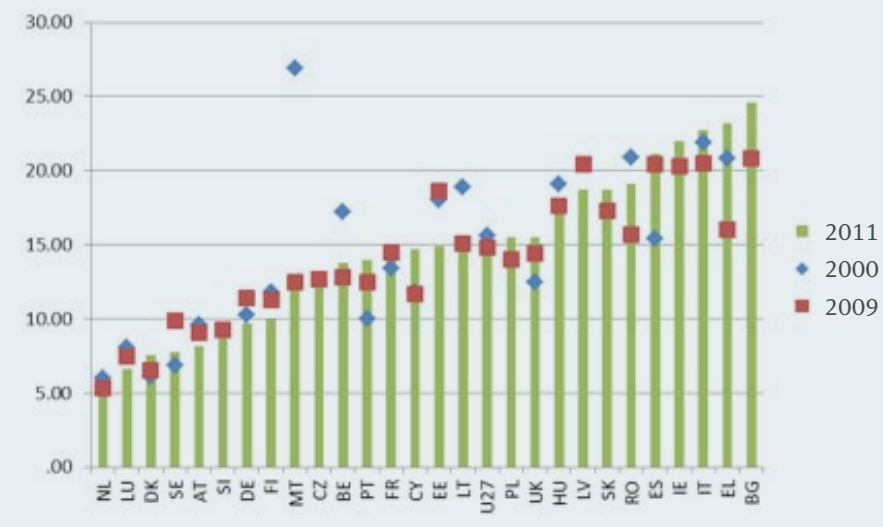
The Italian labour market is fragmented and unequal: Not all workers enjoy the same rights and some are more at risk than others. Italy's social safety net is generous for some worker groups, but virtually nonexistent for (most) others; the extent of employment protection varies substantially across worker groups; and the aggregate wage distribution is too compressed (Dell'Aringa, 2003). As a consequence, a rising share of workers, especially the youngest in the labour force (youth unemployment in Italy is still around 30 percent compared to around 20 percent in the EU), faces high employment risk but little income insurance.

Who are the young people the labour market has been leaving behind? They can be divided into two groups. On the one hand, there are the so-called "left behind", young people who have dropped out from high school—in Italy, they are more than 20

percent of youth (OECD 2010)—or young immigrants, or people living in poor areas. This implies a very high risk of failing to integrate into the labour market. In Italy, the percentage of NEET (Neither in Education nor in Employment and Training) young people who are not following a training course and who do not work is among the highest in EU countries (see Figure 1).

Figure 1: NEET Youth, 2000, 2009 and 2011

Percentage of young people aged between 15 and 29 years



Source: Eurostat. LSDP calculations

Being NEET is obviously a waste of the potential of young people, but it also has adverse consequences on society and the economy. Spending periods of time as NEET may lead to a wide range of negative social conditions, such as isolation, insecure and underpaid employment, crime, and mental and physical health problems. These outcomes each have a cost attached to them, and therefore being NEET is not just a problem for the individual but also for societies and economies as a whole. Eurofound (2012) has computed that NEET costs Italy more than 25 billion euros per year, 1.6 percent of GDP, in terms of lost contributions and direct costs (worse are only Greece, Ireland, and Romania).

A second group of young people has integration difficulties in the market (the so-called “poorly integrated”): They are the high school and university graduates who cannot find a permanent job contract and alternate temporary jobs with unemployment (or inactivity) spells. A study by the OECD found that 11 percent of Italian graduates in the five years after exiting from school alternate between short work experience, unemployment and inactivity, being unable to get a stable job (this rate is almost double than France or Portugal, but lower than the one in

Spain). In addition, new forms of insecurity have appeared in our country over the past decade—for example, the widespread adoption of “fake” self-employment contracts in a framework that, in fact, is very similar to regular employment. Italy has the highest rate of young self-employed workers in Europe: between the 25- to 39-year-olds, 15 percent are classified as self-employed without employees, compared to 6 percent on average in Europe and 5 percent more than in 1999 (obviously not all of them are fake, though).

Why are youth unemployment and dual labour markets such an important issue? Young people do not have to feed families and can easily find a new job, many people would say. Unfortunately youth unemployment has very severe “scarring effects”, i.e., long-lasting effects on earnings (in the UK for instance a 1 percent increase in the unemployment rate at entry reduces earnings by almost 8 percent, in the US, France, and Spain by 2 to 3 percent with persistent effect) and on happiness and well-being (unemployment rate decreases everyone’s happiness, not just the unemployed’s³⁷). However, one of the most damaging effects, and one of the least studied so far, will probably be on pensions: Dual workers will also have considerably lower pensions because of career breaks and lower wages over the working life, and because they are not generally covered by unemployment insurance (Boeri and Galasso 2010 estimate -59 percent of pensions upon retirement in Italy and -56 percent in Sweden despite sharp increases in retirement age).

A problematic institutional setting

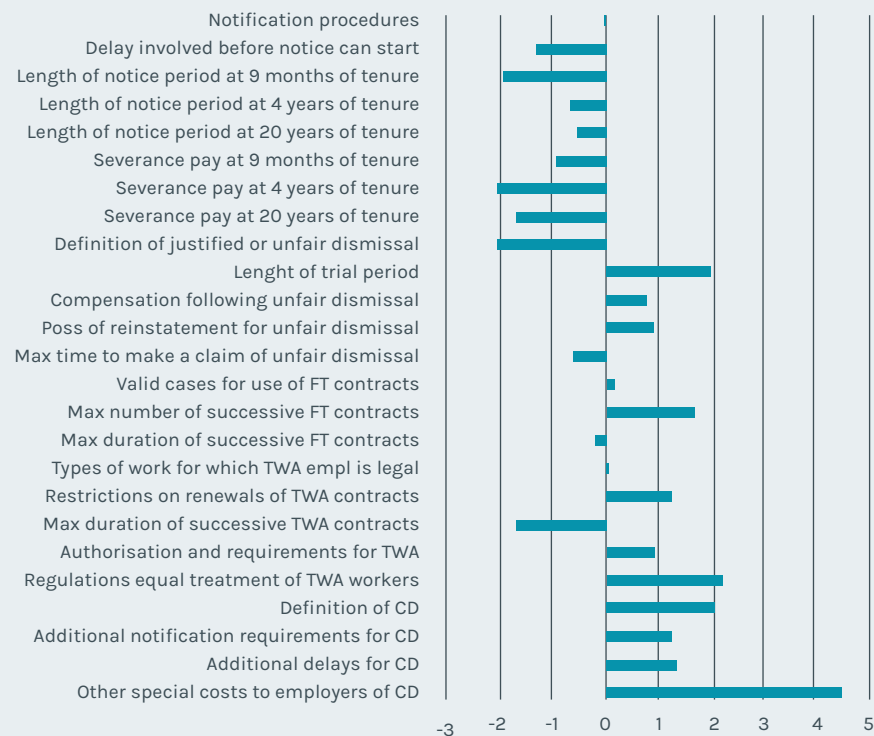
Why is the Italian labour market so fragmented? All other European countries have followed a similar liberalising path in the last two decades. Part of the problem comes from the different labour market institutions and legal culture in Italy. First of all, employment protection (henceforth EP): Italy is supposed to have strong employment protection which hinders labour reallocation and harms firms’ competitiveness. However, looking at the OECD indicator, Italy has a relatively low score as regards overall EP against individual dismissals (Italy has an index of 1.69 compared to 2.25 for OECD average). Nevertheless, as Figure 2 shows, Italy appears to come first as regards the extent of reinstatement, i.e., the famous article 18 of the Statute of the workers that rules that “a worker must be reinstated in case of unfair dismissal”. Around 60 percent of the labour disputes take an average of 23 months to be solved in court. Of these disputes, around 45 percent are rejected during the first level of judgment and around 63 percent at the second level (*appello*). However, the definition of “unfair” is not clear and requires a great amount of proof from the employer side; what is more, judges often “sympathize” with workers,

³⁷ The fear of becoming unemployed in the future lowers a person’s subjective well-being and health status (malnutrition, mental stress, and depression) and labour market performances.

especially in economic downturns.

On the other hand, as Figure 2 shows, the severance payment required to fire a worker is lower in Italy relative to the OECD average. Moreover, unemployment benefits are very scarce. This might explain why employment protection is perceived as rigid in Italy, while workers feel already overexposed to economic uncertainties: All rights for workers are put on the legal side with much uncertainty and loss of time and money in courts without a clear gain for firms and a reliable safety net for workers.

Figure 2: Difference in employment protection legislation between Italy and OECD average, 2008



³⁸ Only 3 percent of the Italian firms are above the 15-employee thresholds but they represent the 65 percent of the employees in the private sectors. If one takes into account also the self-employed, i.e., the owners and relatives, the proper self-employed, so-called “*partite IVA*”, and the fake self-employed (employees formally self-employed to avoid taxes and rules), the number of employees is around 45 percent of the workforce in the private sector (excluding agriculture and *co.co. pro*, special temporary contracts).

Note: OECD EPL index, www.oecd.org/employment/protection. FT = fixed-term contract; TWA = temporary work agency; CD = collective dismissal.

In addition, the labour code does not protect all workers equally. Rights differentiate not only across types of contracts (temporary vs. permanent) but also between similar workers in different firms: Some norms on dismissal protection or on short-time working schemes (*Cassa Integrazione Guadagni*) hold only for firms above 15 employees³⁸. The Treu and Biagi reforms greatly liberalized restrictions on fixed-term and part-time employment, resulting in strong growth in these segments (from temporary work agency contracts to more subtle forms of “simulated” self-employment), but left restrictions on permanent employment unchanged. This asymmetric deregulation, coupled with significantly lower taxes on temporary jobs, tilted incentives for

job creation toward temporary contracts.

A second institutional problem comes from the wage bargaining system. Italy has three main unions (CGIL, CISL, and UIL) and a big manufacturing employers association (Confindustria). First, the system is not fully representative of the Italian labour market. The unions still have millions of members but half of them are retired and the others are concentrated in the public administration or big firms (for a discussion on unions in Italy, see LSDP, 2012). Confindustria, on the other hand, represents just the big manufactures excluding the craftsmanship (they have other associations but they are far less powerful and visible) and many small firms.

Some economists argue that the Italian bargaining model has contributed to the poor economic performance of the last decade. Although the system has not led to excessive wage growth overall, it leaves little scope for many firms, especially small enterprises and those located in the South, to set wages according to their specific conditions. Unit labour costs (which depend on wages but also on technologies and innovation in general) have increased greatly since 1999 (especially in comparison with other EU countries) and as a result, Italy has lost competitiveness and “made in Italy” products and services have become increasingly uncompetitive in the global market, not only with respect to China and India, but also to best performers in the Euro Area. Moreover, the system tends to protect only the insiders, leaving the outsiders (youth and small firms) without representatives at most tables where decisions are made.

The bargaining system in Italy has always been fractious and conflicting, but in the last Berlusconi government, more than ever. However, on 28 June 2011 a *Framework Agreement* between unions and employers established a new path for labour relations (but so far it has not been applied).

Such *Framework Agreement* brings in an unprecedented discipline, which may have also retroactive effectiveness. The agreement followed a year of fight on the new contract at FIAT (the biggest manufacturer in Italy) which imposed more stringent rules for workers and which excludes those union representatives who did not sign the new contract (see box). The agreement established that company collective labour pacts may have an “*erga omnes*” effectiveness (i.e., they are applied towards all employees) if approved by the majority of the union representatives or the majority of the employees. This agreement represents a step forward towards a more decentralized bargaining system which could take fruitful inspiration from the opening-up clauses³⁹ in Germany.

³⁹ Deviation from collectively agreed working organization standards (time, shifts) or less frequent wages.

Understand FIAT to understand Italy

Fiat, the car manufacturer in Turin, is the most important (or surely the best known) company in Italy. Historically, labour relations in Fiat have had an influence on the country as a whole. For a long time, as Gianni Agnelli used to say, (it seemed that) “what is good for Fiat, it’s good for Italy”. Agnelli, the grandson of the founder, was the chairman of the employers’ confederation and a longtime Member of Parliament. Also, unions in Fiat are among the most important branches in unions’ confederations.

2010 and 2011 have been defining years both for the Italian car manufacturer and, in general, for labour relations in Italy. Sergio Marchionne, the charismatic CEO of FIAT who rescued Chrysler and aims now at creating a global car factory, decided to cut short with old-style wage bargaining processes, and, despite the fierce opposition of the main metal union FIOM, he put forward a new contract with strict rules on absenteeism, sickness leaves, shift, and extra hours which are not compensated with relevant pay increases (an average factory worker in Italy earns some 1,300 euros per month, compared with around 2,000 euros in Germany, and Marchionne said he will increase pay just after seeing an increase in productivity).

But the main innovation is about the bargaining rules themselves: Marchionne not only agreed on a new contract with the more moderate unions, excluding the FIOM from worker representation, but he also exited from the employers’ confederation Confindustria to enjoy more freedom of action and avoid being constrained by collective labour contract negotiations. In June 2010, Marchionne won a first workers’ referendum on the new contract in the plant of Pomigliano, near Naples, and in January 2011 he obtained a second positive vote in Mirafiori, the historic plant in Turin. However, the support was mild and well below the expectations of the management. A study by Garnero et al. (2011) of the poll at Turin’s Mirafiori plant showed that most of those who voted in favour of the agreement did so only because they feared losing their job. Moreover, Marchionne did not manage to convince Italians about his plans. Indeed, Marchionne has not made clear the investment plans for plants in Italy and often referred to the possibility to move FIAT headquarters to the US and FIAT plants to Poland, Serbia, or Brazil. Moreover, his hard line is no panacea for Italy’s problems and it risks increasing labour relations tensions. Finally, as a top official at the Bank of Italy said to Reuters last year (can an Italian Elvis make Fiat-Chrysler dance?, March 2011), “Italy’s productivity problems don’t have much to do with coffee breaks and sick leave, but they are more about inadequate investment in research, education and infrastructures”. Marchionne has not addressed these key issues so far, while product and technological innovation are at the core of car manufacturing (labour factors in impact just around 20 percent of the total cost according to some estimates). He has promised for months a business plan for plants in Italy, but two years after the referendum it has not been released yet.

Fiat is a good example of the sclerotic and extremely conflicting institutional system that is no good for workers and Italy’s competitiveness. Marchionne launched a challenge that is likely not to be taken both because of its iconoclastic nature and because it seems to focus only on one side of the coin (the workers) and not on the overall production process. Two years after the referendum, Marchionne’s strategy has proven to be weak and not very clear, representing another lost opportunity both for Fiat and Italy.

The policy response: Back to the old good times or look for a new paradigm?

Despite this clear evidence, Italian parties have never agreed on a reform. Berlusconi’s coalition continuously tried to undermine

unions and reduce red tape, but it faced strong opposition in the country and, perhaps surprisingly, also among employers who feared unnecessary tensions. On the other hand, the Italian Democratic Party (or part of it) is still strongly linked to the CGIL, the main leftist union. The tension among the parties is therefore mainly still between those who would like to go back to the good old times when there were no dual markets and everybody enjoyed permanent contracts, and those who would like a US-style labour market. The reform led by President Monti and Minister Fornero in 2012 for the first time approached this issue from another perspective, combining together an action on the labour law and on unemployment benefits and on pensions. In particular, the Fornero reform introduced important changes regarding dismissal, unemployment benefits, and flexible working. More in detail⁴⁰, the reform has introduced a mandatory out-of-court settlement procedure before the provincial conciliation commission to reduce court burden. The procedure will last no longer than 20 days and the dismissal will be effective from the beginning of the procedure. The contentious Article 18 of the *Statuto dei lavoratori* has been revised to make it clearer and less subject to judges' interpretation (however, the first case in which it was applied in October 2012 has shown that the subjective power of the judges is still very wide, surely far above the one imagined by Minister Fornero). In particular, in case of discriminatory dismissal, the employer must reinstate the employee and pay the lost salaries, while in case of dismissal for subjective justified reason or just cause, if the reason given for dismissal is unsubstantiated or if the national collective labour agreement or the disciplinary code provides for a lesser penalty, the employer must reinstate the employee, who will receive up to 12 months' salary in compensation. In all other cases, the employee will be paid an amount between 12 months' and 24 months' salary. In order to avoid the illegal practice of forcing new hires to sign a blank and undated resignation letter at the same time as the signature of the working contract, the reform introduced a procedure by which the resignation of a pregnant woman or mother of a newborn child must be confirmed by the Ministry.

Moreover, the reform also acted on the security side by introducing employment social benefits for unemployed individuals who have contributed to the programme for at least one year in the two-year period before becoming unemployed. However, this programme will come into force in 2016.

The Fornero reform also reduced the scope of flexible contracts by increasing the tax wedge on them and the minimum period between consecutive temporary employment contracts to 60 days (although recently reducing it to 30 days was discussed as well). Moreover, in order to provide disincentive to particular

⁴⁰ For a full picture, please refer to the summary by Studio Legale Stanchi at <http://www.internationallawoffice.com/newsletters/Detail.aspx?g=b9a076e0-dd22-44d5-8f53-2b5237039e53>

forms of “fake” self-employed contracts (*contratti a progetto*), the reform has limited the scope of such contracts to specific objectives, therefore excluding executive or repetitive tasks. Similarly, for the self-employed (*partite IVA*), if the collaboration lasts longer than eight months, the compensation constitutes more than the 80 percent of the compensation collected by the collaborator in a year and the collaborator has a regular desk or assigned working space with the client (two out of three of these conditions must be met), the working relationship will be transformed in a standard open-ended contract. This presumption does not apply to work that requires high-quality performance or specialised technical or practical skills (if the annual earned income is more than €18,666), or to freelance work admitted to a specific register.

Finally, the reform has clearly put the focus on apprenticeships as the preferred way for young people to enter the workforce. The minimum term will be six months; the ratio of apprentices to skilled employees will be three to two for companies with more than 10 employees and one to one for companies with fewer than 10 employees. New apprentices may be hired only if 50 percent of the apprentices already employed by the company have been taken on (30 percent for the first three years of a company’s operations); otherwise, the apprentices will be deemed to be employees on fixed-term contracts. This does not apply to companies with fewer than 10 employees.

It is too early to evaluate the effects of this reform⁴¹, but for sure it does not represent the end of the reform process. In particular, we believe, the future reform steps should introduce a new form of contract that allows a gradual but certain acquisition of employment protection should be imagined instead of having 46 different kinds of temporary and permanent contracts (in fact they are less, but the total combination can go up to these figure). Prominent economists such as Tito Boeri and Pietro Garibaldi have launched a proposal for a “single contract”. The general idea, despite the difference across national legislations, aims at solving the duality between permanent and temporary by changing the entry on the labour market: In a first phase (up to the third year in the Italian project), the worker has the right to severance payment proportional to tenure (up to six months of salary). From the third year on, workers cannot be fired without just cause (the article 18 discussed above). The proponents argue that, by doing this, duality will be consistently reduced, and this contract where rights and security increase with tenure will prevail. The specific solutions suggested by the proposal can be discussed⁴², but the “single contract” has the quality of focusing on the entry side disregarding the inconclusive and often very ideological debate on the exit side and the article 18.

⁴¹ The reform will be subject to an evaluation in the coming months and the government has said to be ready to modify the law according to evaluation results.

⁴² This proposal can probably work very well for high-skilled workers because firms have incentives to train and retain them. It is likely to work less well for unskilled workers in routine tasks since firms have no incentive to retain them since they can easily find another worker who does not need great investments in terms of initial training.

What is more, unemployment benefits need to be further reinforced. The Fornero reform has not yet extended protection to all workers. Reforming and upgrading the unemployment insurance is particularly difficult in times of budget constraints, but it is a key part of the reform also in terms of political economy: Governments can ask workers for more flexibility if they give more (economic) security.

Finally, there is an urgent need for a reduction of the tax wedge⁴³ to foster labour creation and reduce the gap between permanent contracts and temporary contracts (but also, the increase of social security contribution of temporary contracts to allow a decent pension with the current notional defined contribution system⁴⁴). This can be reversed by lowering taxes and contributions on permanent workers, and not by further increasing the tax wedge for temporary contracts as it was done in the last years by all governments. Foregone revenues can be replaced by raising taxes on properties and rents⁴⁵.

In conclusion, despite the several reforms of the past and despite the efforts put in the current one, the Italian labour market will still require substantial adjustments in order to fully include the young generation, improve the matching between demand (workers) and supply (firms) and solve unsustainable inequalities both across generations and regions. However, changing the institutional settings and making them less unfair will not by itself create more jobs (or fewer). More has to be done in order to restart an anemic labour market by deregulating professions and product and service markets (the “*liberalizzazioni*”) and by making more efficient the financial market in order to help firms and start-ups to invest and create jobs.

⁴³ Italy is among the OECD countries that levy a relatively high tax and social security burden on labour income. Single taxpayers at average earnings take home less than 55 percent of what they cost to their employers (“total labour costs”); taxpayers at high earnings take home even less than 50 percent. The average tax wedge in Italy is about 10 percentage points higher than the OECD average.

⁴⁴ With Notional Defined Contribution systems, workers get what they saved throughout their whole working career.

⁴⁵ I acknowledge that the mathematics of this exercise is particularly difficult since the revenues raised by the tax wedge are difficult to be replaced by a tax with a smaller tax base, i.e., less people who are taxed, and greater difficulty of implementation, which means that taxes on labour taken at the source are particularly easy and guarantee revenue for the government while taxes on wealth are more mobile and difficult to collect.

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// What's Next for Italian Cultural Policy?

The collapse of parts of Pompeii's archeological site in 2011 (the only major one among many others) is the perfect metaphor of a country experiencing a cultural crisis that is even worse than the economic one.

Pompeii is the most striking case, but there are numerous examples of abandoned cultural sites, of scarcely promoted museums, of websites very difficult to find (tourists planning a visit to Florence have to look for a while before they get to Uffizi's website called "polo museale fiorentino") or of unmanageable theatres counting an exaggerated number of people with a permanent contract.

Nevertheless, I propose to put aside for a while the catastrophic condition of the Italian cultural heritage in order to identify "what's next" after Berlusconi's era (provided that this has really reached an end...) as a matter of priority. Culture needs to be placed at the centre of Italian policies if we want to create new basis for Italy's future development, as recalled by the "Manifesto per la cultura" proposed this year by the Italian financial journal *Il Sole24Ore* to re-launch Italian culture and cultural policies.

After all, 2012 was a positive year for culture (although less than 2011). The first report mapping the cultural and creative industry (CCI) in Italy was published providing impressive data on the cultural sector:

The sector contributes to 5,4% of the total wealth produced, which equals nearly 76 billion euro, and employs 1,4 million people, or the 5,6% of total employees in the country, which is more than the primary sector or mechanics. Its added value reaches 15% if we consider related sectors (such as tourism) which are "activated" by culture (Report Symbola-Unioncamere).

Furthermore:

In the period between 2007 and 2010 their [of Culture and Creative Industries] added value grew by 3% in nominal terms, thus supporting 13,000 new jobs in the cultural sector.



This represents almost one percent more (+0.9%), against the overall collapse of employment at national level (-2,1%) (Report Symbola-Unioncamere, 2011).

Beyond this, the Symbola-Unioncamere report adopts a new definition of cultural sector that includes not only the core arts but also the cultural and creative industries (which includes the publishing, audiovisual, film, music and advertising, design, and architecture sectors). Such definition is slowly but importantly taking off in Italy as a follow-up to the first European report measuring the economic impacts of culture (2006).

Moreover, despite the crisis, in 2011 new records of visits to cultural sites and events in Italy were registered: *“From Sunday 16 to Saturday 22 October the number of visitors of the 54th International Art Exhibition ILLUMInations [...] was of 22,242 units, with a daily average of 3,707. This number was never reached in previous editions in just one week. The total number of visitors reached the record of 332.609 (with 28% being young people)”*.

Visitors at the *Museo Nazionale* del Cinema in Turin were 608,488 last year, 8 percent more than 2010. Last but not least, in Pompeii, too, the number of visitors has never been a problem (at the very least, not the major one—many more could go there provided that you find a good trade-off between tourism and sustainability) but bad management has (revenues from the visits, for instance, go directly to the national Ministry and then are partially redistributed to Pompeii. This makes the special autonomy given to the *Soprintendenza*, bodies in charge of historical sites, a couple of years ago ineffective).

Italian cinema also registered very positive results and it promised to do even better this year:

“In 2010 Italian cinema represented 60% of the Italian box offices’ receipts, while national films held a 30% share. In 2011, the percentage of Italian films raised to 40% compared to 45% for the American ones. In 2012 the Italian cinema will equal or even go beyond Hollywood, but, still, there are main issues to be faced. Praising ourselves for what we have done until now is not sufficient.” (Riccardo Tozzi, ANICA – Italian film producers’ association, Director).

Time for (implementing) reforms

The cultural heritage and performing arts sectors have been waiting for years for reforms improving their management structure and making them more efficient, effective, and accountable. The reform of the cultural heritage sector started 20 years ago with the introduction of the so-called “*servizi aggiuntivi*” (additional services, e.g., bookshops, cafeterias) in museums, followed by the special autonomy of *Soprintendenze*



speciali (among which Pompeii). Nevertheless, all these reforms have resulted in being quite incomplete. The juridical autonomy does not always entail financial autonomy. In other words, museums, theatres, and *Soprintendenze* still depend on the central government and its budgetary decisions.

Opera houses, in particular, have to bear unsustainable personnel costs. The Italian cultural system was designed according to a welfare state system that nobody has had the courage or the political willingness to reform. On the one hand, public contributions are constantly decreasing and they are not any more sufficient to assure the remuneration of the employees of many opera houses. On the other hand, workers trade unions do not want to modify the national contract for performing arts workers with the idea of introducing more flexibility and improve opera houses' productivity.

The situation is not better for cultural heritage sites. Pompeii counts about 700 employees of which only 17 are archeologists while the others mainly carry out administrative tasks. This situation clearly puts Pompeii far away from any logic of dynamic cultural development.

The reform for the performing arts sector seems to be ready now, but, still has not been approved. Although it ignores the personnel costs' issues, at least it has among its objectives the improvement of fund raising from private investors and donors.

From cultural heritage to creative industries

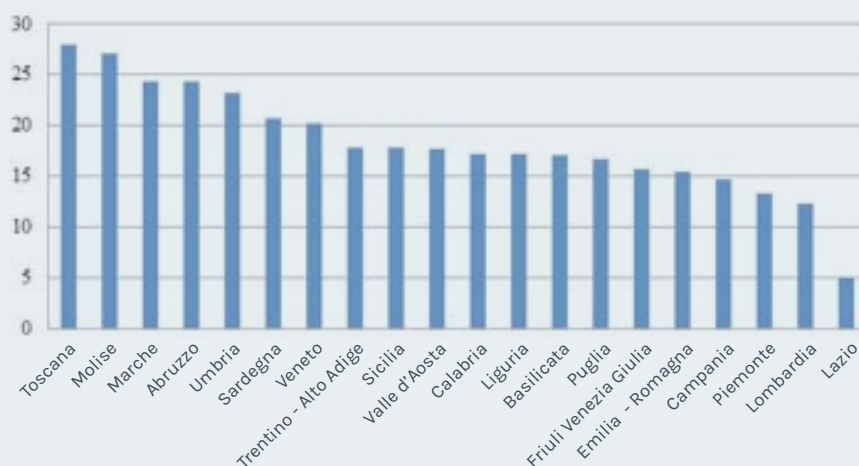
Beyond simple statistics on the number of cultural goods located in Italy, Italian cultural heritage makes any visitor jealous of the Italian beauty.

Nevertheless, in order to avoid developing a “catafalque” economy (as happened in recent years despite Leopardi's warning mentioned at the beginning of this ebook), cultural heritage needs to be “experienced” and “shared”. Also, it should become a source inspiring contemporary production. The high symbolic value of this heritage nurtures the Italian creative industry (from design to advertising) as well as the production of new technologies to access content (from music to film to cultural sites).

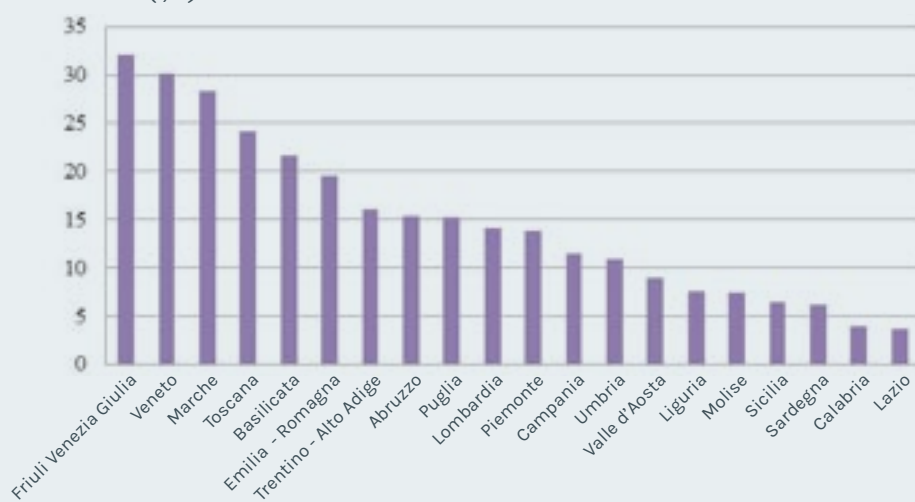
All sort of creative sectors are expanding in Italy. In terms of added value, crafts (Tuscany, Marche), architecture (Molise, Calabria, Sicily), publishing (Lombardy, Trentino), design (Basilicata), and video games (Lazio, Piedmont) are the ones that record the best results (Report Symbola-Unioncamere 2011).



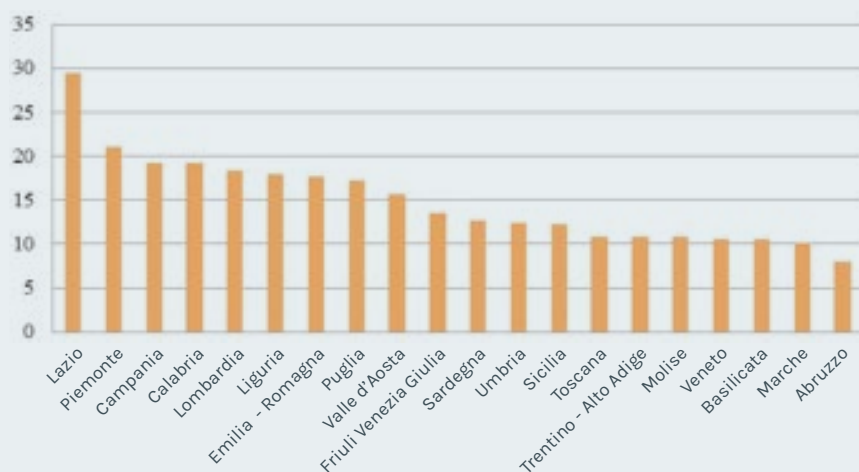
CRAFTS - added value per region over the total CCIs'added value (%)



DESIGN - added value per region over the total CCIs'added value (%)



VIDEOGAMES & SOFTWARE - added value per region over the total CCIs'added value (%)





Moreover, Italian cinema is having a great momentum. In 2010, 32 percent of cinemagoers chose Italian productions, which is close to 8 percent more when compared to 2009. National productions' receipts grow more rapidly than the average (+47%). The animation sector just keeps up: Our country is the third European producer. It is home to two world leaders, Rainbow and Mondo Tv, and half of their revenues come from abroad.

CCIs: A new 'hot spot' for Italian regions

*CCIs have increasingly grasped the attention of regional operators and policy makers in Italy. Apart from regions where CCIs are traditionally very well developed, like Lombardy, regions like Puglia have launched a new creative strategy aimed at supporting creative and talented people from the regions in sectors such as music, cinema, or performing arts. The region has started a series of successful initiatives (such as Puglia Sound or the creation of the Apulia Film Commission) that have helped creative professionals' growth at local and international levels, but also contributed to "re-brand" **Puglia** and attract investment. The region's investment in the film industry has a great multiplier effect on local expenses (7/8 times more) for local actors, technicians, accommodation, transports, etc. The region is also now part of a new pilot project aimed to develop tools to support creative clusters across Europe. This is in the framework of the European Creative Industry Alliance (ECIA) set up this year by the European Commission.*

Italy needs to enlarge its vision of culture and develop its cultural policy accordingly. From our future Minister for Culture (and we hope he/she will be a good one) we would expect something more than a policy focused on arts and cultural goods ("beni culturali", meaning mainly museums and physical heritage). Culture goes beyond this. Culture is a resource to be mined to ensure sustainable development of present and future generations. It is a source of identity and memory but it is also a rich pool of contents and ideas nurturing the new, knowledge-based economy.

Let's stop the "politics of big events" – towards a long term strategy

The Culture Ministry of Milan and architect Stefano Boeri recently declared, "The EXPO is a big event in Italy that Milan hosts. This event should play a crucial role for Italian cinema. It should represent an opportunity to enter new foreign markets". Boeri also considers EXPO 2015 an opportunity to integrate the Italian cinema in the broader context of the Made in Italy, thus combining material and immaterial Italian excellence.

EXPO 2015 is just one of a series of cultural events that will enrich the Italian scene in the next few years: from the Universal Forum of Cultures in Naples to the European Capital of Culture 2019.



In 2011, VeDrò Culture (one of the working groups of the think tank VeDrò) had proposed the creation of a fil rouge between the different events and also between the different candidate cities to the title of European Capital of Culture. The latter is a very interesting idea for at least two main reasons. First of all, cities will invest great amounts of money to prepare their dossiers. The ideas elaborated in this occasion should not get lost. Secondly, many of the tourists who come to Italy want to visit as much as possible across the country. Creating integrated tours based on reciprocal support of cities will satisfy tourists and will also make cultural events more sustainable as being able to attract a higher number of visitors. However, it seems that the idea is difficult to follow due to the high number of candidates, not to mention local intricacies.

The title of European Capital of Culture is an important opportunity for Italy, but lots remains to be done if we want Italian culture to “generate” not only tourists, but a broad production chain. This includes new, user-friendly technologies to visit museums and archeological parks, the development of “design-thinking” that gives new value added to products and services following the Nokia or Apple models, or even the collaboration between artists and companies to experiment new working formats based on originality and risk-taking approaches, or the search of (technological and legal) solutions to create a legal offer of contents online that could satisfy a constantly increasing demand for content.

Artists bring ‘culture-based creativity and innovation’ in workplaces

KIA is an Interreg IVB project aimed at creating new ways of working in companies through the so-called “artistic interventions”. The Swedish partner TILLT carried out numerous improvisation workshops or seminars on body language together with theatre performers or dancers to help employees of companies from the manufacturing, pharmaceutical, business, consulting, or retail sectors “think differently”. The idea was to learn how to better understand and approach customers based on “empathy”. A questionnaire was circulated among the employees before and after the project. At the end, a greater number of employees agreed on the need to include artistic interventions in the companies’ development strategies.

Opportunities in Europe

On a political level, Italy is less present than it should be in the European debate on culture. Only some regions such as Puglia and Lombardy or industry representatives are at the forefront of European policies, trying to face (individually) the lack of clear policy guidelines at national level.

In Europe, the scenario is particularly interesting right now. The European Creative Industry Alliance has just been launched to test new policy tools to support the sector across European



regions. Several other projects are going on in the field of design and fashion on the initiative of DG Enterprise. Moreover, last year DG Culture proposed a new guarantee fund for CCIs following the MEDIA Guarantee Fund set up last year and focused on the audiovisual sector.

Italy should make sure that culture is “placed” in the new proposal for Cohesion Policy (to be discussed soon within the European Parliament) and also that the higher budget proposed for the Culture and MEDIA Programmes are maintained by the European Parliament and the Council of the EU. A bit of money to the cultural sector would not worsen the crisis, while further cuts to cultural budgets would seriously undermine the sector.

EU regional funds supporting regions' attractiveness through culture

*In **Basilicata**, the movie Basilicata Coast to Coast is a successful example of how culture and creativity can support image regeneration and local identity. Supported by the European Regional Development Fund (ERDF), one of the three funds of the Cohesion Policy, it tells about a group of friends travelling together across Basilicata. The movie has contributed to raising awareness about the cultural and natural richness of the place and has attracted new tourists to the region.*

Until now, only 1.6 percent of Structural Funds has been spent in culture-related projects. The new Cohesion Policy should facilitate access to these funds for culture as it greatly contributes to economic development and social cohesion.

Looking at Europe also means taking into account the Green Paper on CCIs of the Commission that invites regions to use better structural funds for CCIs. The Commission rightly recognises cities and regions as the most appropriate “geographical aggregation” to support a diversified cultural production and, at the same time, to facilitate exchange of information in a sector that is nurtured by immaterial inputs and creative talents.

The current government seems interested in re-launching culture, giving it an adequate role for socioeconomic development. The signature of the Manifesto per la Cultura by the Ministers Ornaghi (culture), Passera (Economic Development), and Profumo (Education and Research) is an important sign of political commitment. Let's hope that all this puts the basis for a new, prominent role of culture in the next national government's programme.

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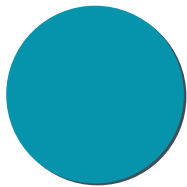
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LO SPAZIO DELLA POLITICA

Lo Spazio della Politica is an independent think tank founded by young Italian professionals and scholars in several fields (geopolitics, public policy, economics, energy, Web sciences, urban studies, and cultural policy), which is based in Italy and Brussels.

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