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Political and institutional constraints on structural reforms: interpreting the Italian experience

Sergio Fabbrini*

School of Government, LUISS Guido Carli, Rome, Italy

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During 2011 Italy reached the verge of a financial default because of its huge public debt. Neither the centre-right nor the centre-left governments that alternated in power in the 2000s were able to introduce the reforms necessary for reducing the debt and promoting growth. The impotence of the government became incompatible with the requirements of the country's continued presence in the eurozone. In November 2011, under the pressure of financial markets and eurozone institutions and leaders, the incumbent centre-right government was obliged to resign, and was substituted by a government composed of technocrats and experts, the Monti government. This lasted until December 2012 and was supported in parliament by a cross-partisan coalition; it was able to introduce some of the structural reforms required, because of the threat of default but also because it did not need to seek the electoral support of powerful constituencies. This article advances an interpretation of the Italian crisis of November 2011, identifying the political and institutional structures and the specific political conditions that fostered a policy stalemate in the country in the 2000s and whose persistence makes the continuation of reforms after the February 2013 elections uncertain.

Keywords: Italian democracy; corporativism; party fragmentation; inefficient administration; weak government; structural reforms

Introduction[1]

In late 2011 the euro crisis brought Italy to the verge of default. The crisis hit Italy because of its huge public debt, which continued to increase (at the end of 2012 it was about 123% of its GDP, while it was at 90% on average in the eurozone) and also because of the country's economic decline. Although pressured by the eurozone institutions and leaders to introduce the necessary structural reforms for reducing debt and promoting growth, the centre-right Berlusconi government elected in 2008 was unable and unwilling to take the required decisions. Indeed, on 5 August 2011, Jean Claude Trichet (then president of the European Central Bank or ECB) and Mario Draghi (now president of the ECB) sent a detailed and private letter to the Berlusconi government specifying the structural reforms it had to introduce in order to receive ECB support for keeping interest rates low on Italian bonds.[2]

In particular, the ECB requested: (1) in order to increase the competitiveness of Italian economy, 'full liberalisation of local public services and professional services ...; firm-level agreements to tailor wages and working conditions to employers' specific needs ...; a thorough

*Email: sfabbrini@luiss.it

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review of the rules regulating the hiring and dismissal of employees ... in conjunction with the establishment of an unemployment insurance system and a set of active labour market policies capable of easing the reallocation of resources towards the more competitive firms and sectors'; (2) in order to make public finances sustainable, 'the adoption of expenditure cuts ...; to intervene further in the pension system, making more stringent the eligibility criteria for old-age pensions and rapidly aligning the retirement age of women in the private sectors to that established for public employees ...; to reduce the cost of public employees ...; to place under tight control expenditures of regional and local governments ...'. Moreover, it was explicitly stated that 'all actions listed ... be taken as soon as possible with decree-laws, followed by parliamentary ratification by the end of September 2011. A constitutional reform tightening fiscal rules would also be appropriate.... There is need for a strong commitment to abolish some intermediary administrative layers (such as the provinces)'. The letter, addressed to prime minister Silvio Berlusconi, closed as follows: 'We trust the government will take all the appropriate actions'.

It is not the aim of this article to discuss the ECB's interpretation of 'structural reforms', nor is it to discuss the legitimacy of the ECB in setting the agenda of the Italian government. What matters is to stress the attitude underlying the letter, an attitude largely shared by the EU authorities and the leaders of the main partners (Germany and France) of the Italian government. According to them, the following reforms were necessary: the opening up of the labour market and the liberalisation of the service sectors, together with the rationalisation of social expenditure (in particular the pension system) and the downsizing of public administration, as well as the introduction of a balanced budget by 2013. These were considered (for Italy) the conditions for promoting growth and for reducing public debt and thus for ensuring (through the ECB) the necessary protection of eurozone partners against financial market speculation on Italian bonds. However, once ECB support had been received in the following month, the Berlusconi government paid only lip-service to the ECB's requests, deciding to postpone the introduction of the required policy measures until the post-2013 legislature. This decision called dramatically into question the reliability of the government and its prime minister. In October 2011, the gap between Italian and German bonds reached an unprecedented level. In November 2011, fearing the financial default of the country, the government was obliged to resign.

Thus the non-confidence vote against the Berlusconi government was expressed by the financial markets and the main eurozone institutions, rather than by Italian voters. At the same time, there was a widespread perception that the centre-left opposition was not ready to take power, given its deep internal divisions on some of the structural reforms required. Therefore, contrary to what happened in Ireland, Portugal or Spain, the decision taken by the president of the Italian republic (who has the constitutional right to decide on the dissolution of parliament) was to promote the formation of a new government without new elections, a government composed entirely of technocrats and headed by a highly respected university professor and former European commissioner, Mario Monti. The Monti government, thanks to the coming together of the three main parliamentary groups into a sort of unofficial grand coalition, obtained the Senate's confidence vote on 17 November 2011 with 281 voting for, 23 against and no abstentions (out of 315 members and 7 lifetime senators), and the Chamber of Deputies' approval on 18 November, with 556 for, 61 against and no abstentions (out of 630 members). The new government was shorter-lived than expected, lasting 13 rather than 15 months. In fact, because of open and growing criticism from the centre-right leaders, on 21 December 2012, after the parliamentary approval of the annual financial stability law, the prime minister decided to resign, thus anticipating by almost two months the natural conclusion of the legislature. New elections took place on 24–25 February 2013.

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So when dealing with the threat of default, Italy had to suspend the normal functioning of electoral democracy, albeit temporarily. In order to introduce at least the more urgent structural reforms required by the country's membership of the eurozone since 2001, reforms that the governments of the 2000s were unable to introduce (the centre-right governments of 2001–2006 and 2008–2011, and the centre-left governments of 2006–2008), Italy had to exclude party politicians from exercising governmental power. Why was that so? The debate is clearly ongoing, and this article aims to advance an analytical framework for identifying the political and institutional factors that contributed to bringing Italy, in the 2000s, to a condition of political impotence when faced with the challenges of monetary integration. After examining the main indicators of Italian economic decline, I will proceed as follows: first, I will delineate the political structure of the country that arguably prevented the introduction of structural reforms; second, I will discuss the institutional conditions that conceivably limited the promotion of reformist policies; third, I will look at the political conditions that the formation of the Monti government tried to meet in order to promote reforms. Indeed, between November 2011 and December 2012, the Monti government was able to introduce some of the reforms set out in the ECB letter because of its relative independence from the need for electoral consensus. However, if the interpretive framework advanced is persuasive, and given the permanence of the political and institutional structures of the country despite the actions of the Monti government, then it is reasonable to expect that it will not be easy for the government emerging from the February 2013 elections to continue the reforms inaugurated by Monti.

Economic decline

According to the basic available indicators, the fact that Italy was in 2011 (and continues to be) in decline, not only economically, is indisputable.[3] Italy continues to be characterised by the lowest economic growth among comparable advanced countries (in the third quarter of 2012, it was −0.2%, compared with +0.2% in Germany and France and +0.5% in the United Kingdom) and it has been among the lowest in the eurozone.[4] Italy has been characterised by a growing inequality of income between generations and genders in addition to that between social groups; by a deepening of the economic and social divisions between the North and the South (after well over 150 years since unification); by a youth unemployment rate which is much higher than the average for OECD countries;[5] by a female work rate that is the lowest among the OECD countries;[6] by constant growth in public and private corruption;[7] by tax evasion which in terms of taxes and unpaid contributions makes up almost an eighth of GDP;[8] and by widespread inadequacy of the public administrative system. The extent of the decline is evident in a public debt that has become 123% of GDP as of 2012.[9] It is important to recall these data because the centre-right government of Silvio Berlusconi (2008–2011) vehemently refused to admit that Italy was in decline.

As argued by several scholars (Salvati 2000, 2011), the huge Italian public debt should be regarded as the result of decisions made by various Christian Democrat/Socialist-based governments during the so-called First Republic (especially in the 1980s), and then by both centre-right and centre-left governments during the so-called Second Republic (especially in the 2000s).[10] In both periods, opportunities for reform were wasted. In particular during the First Republic of the 1980s, governments failed to rationalise and modernise institutions and public policies, in order to put a brake on public expenditure and make public administration more efficient. In that decade, public spending was streamlined in many European countries, but not in Italy. According to IMF data, if in 1988 the public debt was 90.523% of GDP, by 1994 it had

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already reached 121.842%. Indeed, Italy experienced financial bankruptcy as early as 1992, which contributed, with the end of the Cold War, to the collapse of the party system that dominated post-war Italian democracy.

The government of Giuliano Amato (June 1992–April 1993) and the technocratic-leaning ones of Carlo Azeglio Ciampi (April 1993–April 1994) and Lamberto Dini (January 1995–January 1996)[11] inaugurated the first significant reforms of public spending (in particular of the pension system). These measures helped the centre-left government of Romano Prodi (1996–1998) to create the conditions for bringing Italy within the financial parameters required for adopting the common currency, the euro (which came into force in 2001). However, after the dismissal of Romano Prodi in 1998, the alternating governments of the Second Republic of the late 1990s and the first decade of the 2000s failed to take the opportunity offered by entry into the common currency, which kept interest rates unusually low, to build on previous reforms, extending them in order to reduce public debt and to promote economic growth. Indeed, entry into the common currency was not only an opportunity lost (for reducing public debt), but it also had a dramatic implication for the Italian economy. It precluded the adoption of the traditional Italian strategy for promoting growth, i.e. the devaluation of the lira. This is why the Italian decline should be considered as the result of actions or inaction by different party governments operating within different models of democracy – the consensus model of the 1980s First Republic with alternating governments and the competitive model of the 2000s Second Republic with governments alternating between competing political coalitions – and constituted by leadership groups belonging to different political generations. This makes it plausible to assume that the huge Italian public debt may be understood through the identification of basic, not contingent, factors. By basic factors I mean those that contributed to impede the structural reforms that were taking place in other countries, the political and the institutional structures of the country, although their constraining effects were exacerbated by the specific political conditions in Italy at the end of the 2000s. Letus begin by discussing the *political structure.*

A corporativised society and a fragmented party system

I consider as political structure the system of relations between society, politics and administration that obstructed reforms and even obfuscated the perception of how necessary they were. Those relations were held together by a cognitive framework largely shared by the public and the elites. Four elements characterised and continue to characterise (notwithstanding the measures taken by the Monti government) this political structure, forming a kind of quadrilateral medieval fort surrounding Italian decline: a corporativised society, a fragmented party system, a self-serving administration and a culture of co-optation.

Let us consider the first two walls of the fort. In the first place, Italy's society has been characterised by a rooted *corporative* structure. It is important to distinguish between 'corporativism' and 'corporatism'. By *corporativism* I mean a society fragmented into interest micro-groups, whereas *corporatism* is generally assumed to be a system of interest representation structured around large, inclusive and hierarchical organisations of functional (economic and social) interests. To use the language of American pluralists (Truman 1951; Dahl 1983), we can say that the Italian working population has come to be organised into interest groups (micro-groups in the Italian case) rather than into social classes. According to many sociological accounts (Martinelli and Chiesi 2002), it has been the peculiar Italian political economy (based on family-based and small companies and protected service activities) that has created a balkanised social structure. With the exception of some large unions and business associations, which for historical

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reasons have aggregated different sub-groups, most of the associations representing interests in Italy are of a specific and limited nature. Moreover, the technological and social transformations that have occurred in the past two decades have even questioned the representativeness of big unions and business organisations. A centrifugal logic has developed within them, which has brought about fractures and separations. The various interests involved have taken positions that meet the immediate challenges of global competition; for example, in January 2012 FIAT formally left Confindustria, the largest business association, in order to free itself from the constraints of national collective agreements; and their contractual counterparts FIOM, the metal workers' organisation, left the CGIL, the main trade union association, for exactly the same reason and in the same period.

However, if the diffusion of interest micro-groups might be considered the result of the Italian political economy, the political influence of those groups is the consequence of a country which had weak governments during the previous First Republic, when a government lasted on average a little more than 11 months (although the same politicians tended to move from one ministerial post to another, see Fabbrini and Vassallo 1999), and which during the Second Republic, although it had more stable executives (because of bipolar electoral competition), was unable to operate effectively (because of their internal divisions). As argued by the most prominent Italian scholar of administrative law (Cassese 2011), Italy had and continues to have the characteristics of a society without a state. In the vacuum caused by the weakness of public authority, the country has found a form of corporative self-governance based on the idea that every activity, public and private, should be regulated chiefly by those who perform it. The task that in any other liberal democracy would be considered properly performed by the public authority (a government, a parliament, an independent agency), in Italy is believed to belong naturally to those who operate within the various sectors.

It is for the professional guilds of the lawyers or notaries or medical doctors to regulate their activities; it is for the taxi drivers' associations to regulate private transport; or for the pharmacists' associations to regulate the distribution of medicines; or for the university professors to define the academic organisation; or for the unions of public workers to set the rules for the functioning of the state apparatus. It goes without saying that a policy-making process affected by corporative groups solely interested in protecting the interests of their members (the insiders) penalises those who do not belong to corporative groups and are unable to participate in that process (the outsiders who, in Italy, are mainly young people and women). Indeed, the power of insiders has resulted in a divided labour market, with some sectors highly protected by strong trade unions representing middle-aged workers, and other sectors largely constituted by young workers with temporary and unstable jobs and without trade union protection (Ichino 2011). Or consider the social protection system, with powerful interest groups representing pensioners able to win very favourable conditions for them to the detriment of 'unrepresented' future generations who will nevertheless have to finance those negotiated conditions. This is why, in the 2000s, according to Bank of Italy data (D'Alessio 2012), the distributive inequality was primarily between generations and genders rather than between social classes.

Second, Italy has been characterised by a party system as fragmented as the society it has had to represent. It is difficult to say if this fragmentation has been inherent in society itself or whether party fragmentation has accentuated social fragmentation. But it is undeniable that political fragmentation has limited the ability to govern the country. The more interest micro-groups are allowed to govern their sector, the less public institutions are required to do so. Certainly in the First Republic, political parties were the gatekeepers to parliamentary decision-making, thus aggregating the various social and functional interests within broader ideological

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perspectives. The Cold War and the class conflict that arose with the industrialisation of the country provided the criteria for aggregating sections of society and various functional interests within a meta-political perspective. The end of the Cold War and the collapse of the old party system which followed in the early 1990s led to the depletion of meta-political perspectives. Although it was not inevitable, this caused the further fragmentation of political interests. At least until the resignation of the Berlusconi government in November 2011, this fragmentation was reassembled instrumentally within either one or the other major political poles. The high internal lack of unity present in the two poles of the centre-right and centre-left was left unresolved, thus causing an even greater conflict between them (Fabbrini 2012b). The creation of the enemy (in the other pole) was in fact essential to hold together groups and interests which would otherwise not be compatible.

The fragmentation of parties, weakening governmental action, has worked to the benefit of the various corporative interest micro-groups, which were able to consolidate their control over their respective sectors. Therefore, the predisposition to protect specific interests has dominated over differences in political ideology or militancy. It has been the transversal nature of Italian corporativism that has contributed to the decision-making weakness of Italian governments. The corporativisation of Italian politics has also involved the Northern League, a protest party that emerged from the crisis of the First Republic. Since its institutionalisation, it has been transformed into a territorial interest group aiming to gain positions in local and national public apparatuses (administrations, agencies, financial institutions) in order to distribute resources and to protect its own supporters and, above all, leaders (as shown by several judicial inquiries into the tremendous mismanagement of public funds by its top representatives).

A self-serving administration and a culture of co-optation

The third wall of the political structure that has imprisoned Italian growth has been a degraded state apparatus. Public administration has deteriorated because reforms have not been made, despite being perpetually announced. An ageing managerial staff, the widespread mentality among civil servants and managers that the state should not worry about the outcome of its actions or non-actions, legal formalism for its own sake and a predisposition to consider citizens in particularistic terms, all this has transformed public administration into an increasingly self-serving structure. Although some administrative sectors have been capable of renewing themselves (especially those most exposed to international pressure), the backwardness of the Italian administrative system has constrained not only the modernity of some of its apparatus and the sophisticated capabilities of some of its civil servants, but also the functioning of the economy.[12] With a few (albeit important) exceptions, as seen in the strategic sectors of the Treasury, Foreign Affairs and some Security departments, and above all in the Bank of Italy, very few among the management in the public administration have been trained to deal with issues of public policy, or with the economic implications of judicial norms, or with the consequences of Europeanisation or globalisation.

Faced with epochal economic transformation and with a sovereignty now shared with the other EU member states in the area of public policy-making, the traditional Italian state apparatus has continued to operate on the basis of rigid procedures, which were for the most part conceived in a historical era radically different from the current one. It has been the obvious inadequacy, if not the inefficiency, of the public regulatory system that has compelled legislators and administrators to introduce a multitude of exceptions (or derogations) in the implementation of those norms. Rather than simplify and adapt the regulatory system, in Italy it was decided to

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accumulate norms on top of norms, exceptions on top of exceptions. This has made the legal environment regulating entrepreneurial activities highly uncertain. At the same time, political parties found that uncertainty is politically convenient for them in exercising their roles of intermediary between corporative micro-interests, single firms and state resources.

This structure of relations between groups, parties and public administration has been cemented by a cognitive framework shared by large sections of the citizenry and elites. The fourth wall of the fort has been a widespread culture which rejects competition (albeit regulated), preferring co-optation. The power structure (in interest groups, in parties, in the administration, in public and many private companies) continues to be renewed internally only through co-optation managed from the top, which prizes loyalty rather than merit, in order to guarantee continuity in internal hierarchies. This co-optation has deep roots in Italian history (Altan 1999). It is not necessary to go back to the guild system of medieval Italy; it is sufficient to remember the role played by fascism in legitimising and formalising this corporative logic.[13] However, if it is true that this corporative logic has deep historical roots, it is equally true that it was fuelled by the political parties that constructed the post-war political system. Distrust of competition, profit, business and merit characterised the political cultures of both the Christian Democrats and Communists. This mistrust has led to the justification, if not the legitimisation, of the inward-looking logic of various interest micro-groups, parties and public institutions. A similar attitude, paradoxically, also has roots in the country's economic and financial system, a system that continues to contain large areas of what has been called 'the capitalism of relationships'. It is a form of capitalism which is more concerned with building networks and alliances between companies and banks inside the various boards of directors, designed to keep the dynamics of power under strict control rather than to open itself to competition according to impersonal rules. It is evident that this form of capitalism through family and personal relationships has been the source of a multitude of conflicts of interest (Rossi 2003) and has obstructed the removal of barriers preserving trusts and monopolies.[14]

In conclusion, at the end of the 2000s, Italy became unable to grow economically because its political structure prevented innovation, competition and openness. The functioning and legitimisation of the political structure required the use of public resources to meet the requests of a multitude of particularistic interests. The logic of the political structure conditioned the various governments of the Second Republic, although its origins went back to the First Republic and probably even before. With the entrance of the country into the eurozone the pressure for introducing structural adjustment of the economy grew, but this political structure, combined with the existence of specific institutional and political factors, prevented the introduction of significant structural reforms. It is time to consider those institutional and political factors.

The institutional structure

As pointed out by two Italian economic historians, Ciocca and Toniolo (2004), in the wake of the work of an American economic historian (North 1990), it is always difficult to adapt an old economic and social model to a new reality, especially when that old model has had time to consolidate, thereby creating interests and expectations bound to defend its permanence. Economic institutions tend to stabilise around equilibrium points in order to evolve according to the logic of path dependency, even if that logic then becomes inconsistent with changes in the external environment. Although the political structure of Italy has created obstacles and resistance to reform unknown in comparable countries, these countries have had to rely on weak governmental capability in their adaptation to the logic of European monetary integration and

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global financial markets. Contrary to Italy, because they did so, those countries could rely on favourable institutional conditions. Comparative analysis shows that the structural readjustment of the economic and social systems of a country has been possible when the institutional system has met at least three specific conditions.

The first condition is the cohesion of governmental majorities. Regardless of the content of the measures adopted, countries like Germany, the UK and France introduced changes in public policy (with Gerhard Schröder, Tony Blair and, to a lesser degree, Nicolas Sarkozy) because their governments were supported by cohesive majorities. Without cohesion, a majority cannot promote structural reforms affecting established interests and positions. In those countries, cohesion was sometimes motivated by the adherence to an agreed government programme, though it was primarily fostered by an institutional system which provides incentives to members of government for their loyalty and discipline.

In Italy, the nature of the party system has made governmental cohesion largely uncertain. Moreover, the electoral law approved in 2005 and used for the parliamentary elections of 2006, 2008 and 2013 (the so-called *porcellum*)[15] has further weakened loyalty and discipline among the members of parliament. Members of parliament are not elected but appointed by the various leaders or micro-leaders of each party or political faction. Since they are not required to be loyal to voters or parties, they can easily change party affiliation according to what works best for them at the time. We know that *trasformismo* is an enduring tradition in the Italian parliament (Sabbatucci 2003). However, in the XVI legislature (2008–2013), that predisposition became a mass behaviour: roughly a third of MPs changed parliamentary group, many of them more than once. After the parliamentary elections of 2008, six parliamentary groups were instituted in the Chamber of Deputies. Five years later (2013), there were 19. Periodically, MPs entered and exited from the '*Gruppo Misto*', a sort of parliamentary group by default, using that group as a staging post between an old and a new affiliation. Operating in a fragmented party system, several MPs transformed themselves into political entrepreneurs who set up their own political business for selling their political goods (support for a bill or absence from a crucial voting session of the parliament) at the highest price.[16]The fragmented majorities of the 2000s could hardly be expected to pursue strategies leading to innovation and growth.

The second condition is the effectiveness of government action. If one considers the governments of the main European parliamentary countries, one sees that government action is generally institutionalised. Governments act in parliament through procedures of parliamentary confrontation that protect the government and guarantee the opposition. This was not the case in Italy in the 2000s. Because of the cumbersome procedures organising parliamentary life, governments had to resort to law decrees (*decreti legge*), or to votes of confidence on maxi-amendments containing thousands of articles and paragraphs, in order to protect their proposals from unrestrained 'pork-barrelling'. With weak parliamentary groups, the interests of professional guilds (of lawyers, university professors, medical doctors, pharmacists, public officials, taxi drivers, etc.) but also of business associations, trade unions or co-operatives and non-profit organisations, could be protected in the legislative process by their members affiliated to the various parliamentary groups.[17] Although there are no data directly correlating the professional membership of MPs with their parliamentary behaviour (it is sufficient for an MP not to participate in a roll call or to abstain in order to obstruct the approval or even the discussion of a law proposal), it is reasonable to assume that their roles coincided when it came to opposing bills jeopardising the regulatory monopoly of specific interest groups in specific sectors.

Consider three attempts at liberalisation. First, the bill (*disegno di legge*) concerning the liberalisation of the legal profession.[18] The bill was submitted to the Senate (A.S. 601) on 28 May

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2008 and approved on 23 November 2010, then sent to the Chamber of Deputies (AC 3900-A) that approved it with amendments on 31 October 2012, then sent back to the Senate on 7 November 2012, where it would have had to be re-voted on without amendments (the discussion in each chamber required around two years). The Senate's vote was of course prevented by the resignation of the government in December 2012. Second, the *decreto legge* (n.1/2012) concerning the liberalisation of local public services, pharmacies and insurance companies introduced by the Monti government, when converted into law (n.27/2012), brought a significant watering-down of the liberalising thrust contained in the previous law decree.[19] Third, the 2009 bill reforming the 2007 class action law, changed in its turn in 2012, mitigates the rights of consumers to defend their own interests against abuses of monopolistic positions.[20] At the same time, the so-called '*Lodo Alfano*', a bill which guaranteed full immunity from penal prosecution to the four public authorities of the country (presidents of the republic, of the Council of Ministers, of the Senate and of the Chamber of Deputies), but was in fact designed to protect the then prime minister Silvio Berlusconi, took only 21 days (in July 2008) to be approved. The law was then declared unconstitutional by the Constitutional Court on October 2009. Italy continues to be the only one among the larger European countries to have an undifferentiated bicameral parliamentary system, requiring that every bill proposed goes through a long process in both chambers before approval. This bicameralism further exposes the government to the pressures of the various parliamentary and interest groups, pressures which regularly exploded during the budgetary session. According to Wehner (2010), in the 2000s the Italian parliament was responsible for a fiscal incidence that was among the highest in non-federal democracies: on a scale of zero to 100, the Italian parliament scored 33.3, whereas the French parliament scored 18.1 and the UK parliament 20.9. In the latter two countries, it was the government that controlled the budgetary process, not parliament (which actually had very limited power to amend the government's proposal).

The third condition is the independence of the state. In the main European countries, public administration (its specific offices and agencies) has not been easily captured by micro-interest groups, as it has in Italy. In Italy, many local and central public offices have become so intertwined with specific groups and associations (in certain areas even with criminal organisations) that the distinction between public and private has waned. The same regional devolution of the Italian state has become the occasion for the explosion of regional public expenditure and the multiplication of local public agencies. Public expenditure in Italian regions has jumped (in millions of euros) from 119.398 (2000) to 208.418 (2010), an increase of 74.6% in a decade or 23.9% if the inflation rate is taken into account.[21] Those resources and agencies have created formidable opportunities for the expansion of relations of mutual advantage between public officials, local and central politicians, and interest groups. Given this colonisation of state apparatus by the various interest micro-groups, it would have been difficult to implement policies aiming to alter the consolidated social and administrative equilibrium.

Thus, Italy has had to face the euro crisis and its pressure for introducing structural reforms without an acceptably effective institutional system. The current Italian parliamentary system has not been able to guarantee governments the independence they need to design and/or implement policies of general interest. Certainly, the existence of an effective system of government is not, per se, sufficient for introducing innovative reforms. The quality of the political elites matters as well. For instance, in Germany, when agreement was impossible between government and the main associations, the government leader took responsibility upon himself, as was the case with Social Democratic chancellor Gerhard Schröder (1998–2005). Despite opposition from a substantial portion of his party (SPD) and much of the trade union movement, Schröder promoted, at the beginning of the 2000s, a series of structural reforms called *Agenda 2010*. It was these

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reforms that led to the defeat of the chancellor's party in the elections for the Bundestag in 2005; but it was the same reforms that created the conditions for growth in the German economy in the second half of that decade. So governmental leadership matters. Italy in the 2000s did experience with Silvio Berlusconi a highly personalised political leadership, but of a populist, not a governmental type. Indeed, the failure of the Berlusconi leadership was due precisely to the fact that he embodied a model of politics without policy (Fabbrini 2012c) incompatible with the governmental requirements of a country in a highly integrated monetary and economic area.

The political conditions

In Italy, structural reforms were also prevented by the absence of crucial political factors that helped other countries in promoting reforms. On the basis of the vast literature on structural reforms (as reported in Paolazzi and Sylos Labini 2012), one might consider at least four political factors which helped in promoting policy change. First, structural reforms were introduced when the defence of the status quo became untenable for both the elites and citizens of the country in question. The non-defensibility of the status quo was evident in countries of Eastern Europe that had emerged from a long period of deterioration, or in developing countries such as Brazil, committed to freeing themselves from widespread poverty. But the non-defensibility of the status quo also became evident in countries which went through internal changes to their economic system, as was the case in Germany after the reunification of the country in 1991, or in Sweden after the deep economic crisis in the first half of the 1990s. It was the extraordinary nature and pervasiveness of those events that led the two countries to introduce radical measures to counter their decline. But, most of all, it was the political leadership of those countries that accepted the challenge posed by the crisis without underestimating the extent of its effects.

Second, structural reforms were successful where there was a bi-partisan consensus for their necessity. Since their advantages would be long-term and their costs were paid in the short term, this consensus was necessary to prevent one party from using the malaise created by the reforms of another party to derive electoral advantage. A party relegated to opposition would have pursued the same tactics against the party now in government, retaliating for what the latter did when it was in opposition. In Greece, it has been the lack of a bi-partisan consensus (if not of mutual trust between the two main party leaders George Papandreou and Antonis Samaras) that accelerated the country's bankruptcy while, conversely, it was the bi-partisan consensus on structural reforms that enabled Brazil's Lula da Silva to go ahead with reforms initiated by former president Ferdinand H. Cardoso, or the UK's Tony Blair to go ahead with reforms introduced by former Conservative prime ministers.

Third, structural reforms were accepted by the citizens when individual measures were presented as part of a larger vision which is both clear (regarding policy measures) and coherent (regarding the strategy to be pursued). The experiences of countries in Eastern Europe and Brazil are significant. The promotion of structural reforms required that governments explain the reasons for these measures, the overall benefits of their implementation, their consequences in terms of the growth of well-being and even national dignity. It was not only a question of good packaging, but the capacity to motivate people to see the reasons for the change. Of course, the personal credibility of the government leader was indispensable in making reforms acceptable to those who would suffer the highest cost, a credibility that was sometimes gained in the fight against communist authoritarianism (Eastern Europe), or against military dictatorship (in Brazil and other Latin American countries). But most of all the structural reforms were accepted when they were accompanied by equitable measures. Fourth, a global vision of structural reforms was

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even more convincing when seen as the expression of a supranational (or transnational) strategy aimed at dealing with the requirements of a particular regional area in facing the challenges of globalisation.

In Italy, these four conditions were absent in the last decade. The first condition was long neglected. Although the status quo became economically indefensible, there was a substantial effort on the part of the Berlusconi government of 2008–2011 to defuse the situation, as though Italy did not really need structural reforms. Even the second condition was missing in Italy for a long time. The 2000s were a period of extreme political polarisation that prevented the formation of any bi-partisan consensus. At the same time, as regards the third condition, the Italy of the 2000s was never in a position to confront a clear and coherent vision of its future. After the experience of the first Prodi government (1996–1998), when that vision was focused on the effort to bring Italy into the euro (that is, within the parameters that would allow it to adopt the common currency), Italian politics was a permanent warfare between friends and foes of Silvio Berlusconi. Moreover, regarding the fourth condition, the Berlusconi governments of 2008–2011 in particular brought Italy to a sort of decision-making marginality within the eurozone institutions and leadership.

The Monti government formed at the end of 2011 was an attempt to tackle those political conditions. Its formation came from the recognition that the economic decline was unbearable for the country; that partisan polarisation needed to be stopped in its tracks; that a vision of the future was necessary; and that the country had to return to the core of eurozone policy-making to strengthen its chances for growth. If one considers the requests contained in the ECB letter of August 2011, the Monti government introduced some reforms that the governments of the 2000s did not even dare to submit to their parliamentary majority and public opinion. Its independence from electoral pressures allowed the Monti government to inaugurate reforms affecting both the opening of the labour market and the rationalisation of public expenditure. Regarding the former, consider Law n. 92 (in force on 18 July 2012) that changed (as requested by the ECB) the 'rules regulating the hiring and dismissal of employees' (rules institutionalised by Art. 18 of the Statute of Workers). Regarding the latter, see the reform of the pension system through Law n. 214 (in force on 28 December 2011), the laws prescribing a spending review of all public administrations (Law n. 94 entered into force on 7 July 2012, followed by Law n. 135 and n.213), and finally the much discussed Law n. 190 confronting the corruption of public employees (in force on 13 November 2012). Moreover, on 20 April 2012, the parliament definitively approved, through constitutional procedure, the Fiscal Compact Treaty prescribing the adoption of a balanced budget rule by the 2013 financial year.

The Monti government also tried to fight (with some success) against tax evasion and to neutralise tax loopholes that supported inefficient firms. It also tried to design (without significant success) a project to reduce public financial support of party activities and to downsize the structure and costs of provincial governments. The liberalisation of the service sector was also pursued by the Monti government, but the results were far from those required. In fact, because the government's proposals had to be approved by parliament, MPs had the opportunity to water down the less welcome of them. Certainly, the threat of default and EU pressure constrained the action of the informal parliamentary majority supporting the Monti government, obliging the MPs to vote, albeit unwillingly, in favour of the more relevant government proposals. Nevertheless, the Monti government, as in fact suggested by the ECB letter, had frequent recourse to decree-laws in order to avoid parliamentary negotiations on its proposals (in its 13 months in power, the Monti government introduced 40 *decreti legge*, 88 *decreti legislativi*, and only 30 *disegni di legge*).[22] In sum, the *vincolo esterno* (outside pressure) worked again in pushing parliament to support unpopular laws, although the main governmental bills on structural reforms (such as the reform of

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the labour market and the pension system) had to be submitted to a confidence vote (*voto di fiducia*) to prevent their dissection in the parliamentary debate. Finally, the prime minister came to play a crucial role in the European arena, helping to change the eurozone orientation from an emphasis on austerity to an emphasis on growth. But of course, technocratic governments can operate only in exceptional conditions and for a limited period of time.

Conclusion

From a comparative perspective, it is possible to argue that structural reforms were generally promoted from the top, rather than consensually decided upon at the bottom. After all, self-reform is highly unlikely when there are powerful vested interests that would likely be damaged by the outcome of that same self-reform. Because of the weakness of its institutional system, the Italy of the 2000s could not resort to a top-down strategy for adjusting to pressure from the eurozone. Once the threat of default became vivid, the country had to rely on a technocratic government to introduce some of the more urgent requested structural reforms. The non-electoral nature of the Monti government, protecting it from the constraints generated by political and institutional structures, allowed it to introduce those reforms necessary for meeting the eurozone requirements. At the same time, a technocratic government can be accepted only for a short period of time. In fact, the return to the regular functioning of electoral democracy with the 24–25 February parliamentary elections brought to a close the experience of a government relatively unconstrained by the need to win electoral consensus. The decision taken by Mario Monti to participate as a political leader in the elections epitomised the end of the experience of the technocratic government he previously headed. If that is true, then it is plausible to wonder whether the post-February 2013 government will be able to pursue the reform agenda despite the persistence of the political structure of the country. To do that, the reform of the institutional system would have to take place at least contextually with the reform of the economic and social policies and public administration, a coincidence which seems far from certain. For now, one might safely conclude that the non-electoral government of Mario Monti was effective in pulling the emergency brake of the Italian train that risked going off the rails, but it certainly could not create the conditions for irreversibly changing the direction of the train.

Notes

1. I wish to thank Edoardo Bressanelli and Giovanni Piccirilli for their research assistance. The article is Developed from the research done for the chapter (Fabbrini 2012a) in the volume edited by Paolazzi and Sylos Labini (2012).
2. The letter was made public, in its original English version, by the *Corriere della Sera* on September 29, 2011.
3. The literature on the Italian decline is a growing industry, particularly since 2000.In Italian it is useful to read Petrini (2004); Toniolo and Visco (2004); Nardozzi (2004, 2010); Boeri et al. (2005); Rossi (2009).
4. According to the OECD *Economic Outlook* No. 91, considering the percentage change from the previous year of the real GDP in the period 2008–12, Italy scored −1.2 (2008); −5.5 (2009); 1.8 (2010); 0.5 (2011); −1.7 (2012), whereas the average corresponding figures for the eurozone were 0.2 (2008); −4.4 (2009); 1.9 (2010); 1.5 (2011); −0.1 (2012).
5. According to the Organisation for Economic Cooperation and Development (OECD), in a study published in September 2011, the youth unemployment rate in Italy in 2010 of 15- to 24-year-olds reached 27% on average, well above the 16.7% figure for the OECD area. The number of young people with temporary jobs, which was 42.3% in 2007, at the end of 2012 was progressively increasing towards 46.7% of the total. The situation was even more dramatic in the South (Mezzogiorno) as described in the 'Report 2010 on the South' presented by ex-Minister for Regional Affairs Raffaele

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Fitto, also in September 2011.In 2010, the unemployment rate of 15- to 24-year-olds was 38.8% in the South, with a peak of 40.6% for women.

6. According to OECD data for 2009, Italy was at the very bottom with regard to female employment. Fewer than one woman in two (46%) worked, while the employment rate in Norway reached 80% for women between 15 and 64 years old. Only Turkey, within the OECD countries, had a lower rate at 24%.
7. According to the report 'International Transparency', published in December 2011, based on the perception of corruption, Italy was in 69th place (together with Ghana) in international ranking. Only Romania, Greece and Bulgaria ranked higher within the EU. In a hearing in the Chamber of Deputies (20 December 2011) the President of the Court of Auditors, Luigi Giampaolino, quantified the cost of corruption in Italy to be 60 billion euro per year.
8. In a hearing of the Senate Finance Commission on 18 November 2011 Luigi Giampaolino said that the value-added figure for the 'black' economy corresponded to 18% of GDP, which put Italy in second place for tax evasion among the advanced countries, on a par with Greece.
9. According to 2011 OECD data, Italy was in third place (after Greece and Japan) for the highest public debt (119% of GDP). In 2012, Italian public debt further increased to 123% of GDP. In the same year, in Greece, the public debt skyrocketed to 160% of GDP, bringing the country to financial bankruptcy.
10. The First Republic is generally considered to be the period 1948–1992 and the Second Republic the period following 1992 (see Fabbrini 2008).
11. Between the two governments there was the rather unsuccessful experience of the Berlusconi premiership (May 1994–January 1995).
12. As Cassese (1998) discussed at length in the wake of the pioneering studies by Giannini (1986).
13. On the continuity between Fascist Italy and Republican Italy, see Cassese (2010).
14. As argued by the former Italian prime minister, but also president of the Antitrust authority, Giuliano Amato (2000).
15. This law is a proportional representation system with a majority bonus to the party or coalition receiving most votes, allowing it to reach an absolute majority of 54% of the seats in parliament. Although Greece adopted a similar electoral system for the election of May and June 2012, the differences from the Italian one are significant. First, in Greece, the party or coalition of parties that is supported by most votes cast gets a bonus of 50 parliamentary seats that does not necessarily guarantee an absolute majority in parliament (constituted by 300 seats), unless the most-voted party or coalition has gained at least 40.4% of the popular vote. In Italy, on the contrary, the most-voted party or coalition gets an absolute majority of parliamentary seats, regardless of the popular vote received. Second, in Italy the party's lists are closed, i.e. voters cannot select a particular candidate from the list, whereas in Greece the voter is expected to give preference to an individual candidate within the party list.
16. The volume by Rizzo and Stella (2007) is a detailed report of the high profits generated by such political business.
17. According to the data reported by Pellizzari and Pica (2011, 162), after the elections of 2008, 'the professions [are] decidedly over-represented in the Italian parliament where … there are 276 professionals (134 lawyers, 89 journalists and 53 doctors, without taking into account the 77 university professors) out of a total of 945 members of parliament (29.2%)'.
18. See information for the Senate at http://bit.ly/Zyx3hd and for the Chamber of Deputies at http://bit.ly/ZUlzlT.
19. The watering-down is clearly detectable when comparing the law decree and the law finally approved at http://bit.ly/12Vftpd.
20. http://bit.ly/YvA8I7, reformed in 2009 (http://bit.ly/10VKsQV) and revised again in 2012.
21. These data were elaborated by the highly respected Issirfa-Cnr (Institute for the Study of Regional, Federal and Autonomous Systems associated with the National Research Council).
22. As reported by http://www.governo.it

Notes on contributor

Sergio Fabbrini is Director of the School of Government and Professor of Political Science and International Relations at the LUISS Guido Carli University of Rome, where he holds a Jean Monnet Chair. He was the Editor of the *Italian Journal of Political Science* from 2003 to 2009 and the Director of the Trento School of International Studies from 2006 to 2009. Among his recent publications are *Compound*

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