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Italy and the Global Economic Crisis

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Abstract: Global crisis in Italy has impacted on a system that had deteriorated after twenty years of political instability and economic decline. Since 2000 coalitions of both the Right and Left have been in office in Italy and neither has proved capable of solving Italy's problems. When the global economic crisis hit the country, Berlusconi's government confronted it in two main ways: supporting banks and big firms, and cutting public expenditure. This policy had also been recognised as the correct one by the Opposition but the way in which the Government put it into practice was contested – mainly on grounds of a lack of transparency, inefficiency and inequity. The global crisis has also shaped the political balance in Italy. The Lega Nord's predominance in the Government and the evident shift in Government policy towards the Lega's aims, have created political space for internal and external opposition to Berlusconi's coalition.

Keywords: Italy, economic crisis, Berlusconi, Italian government

The global economic crisis has without doubt been the most important international event of the last three years and it will profoundly shape the future of the European Union as well as that of the EU's member states. Each of them has been affected in different ways and is confronting the crisis with policies that vary according to their domestic circumstances. The impact of the crisis on EU member states has come about in two phases. Initially, it endangered the stability of banking systems. In that phase the impact and reactions of EU governments depended on the structure and the sizes of the national or international banks they hosted. In general, governments supported or saved banks by granting them liquidity. However, for certain banks the scale of the financial crisis was so huge that it has required more detailed intervention on the part of governments. Banking systems responded to the crisis with traditional solutions, namely credit restrictions and increases in liquidity, mainly on the part of national central banks and governments. National governments needed funds to support banks and to offset the fall in tax revenues induced by the growing economic crisis – which triggered the second phase of the crisis. In fact, bankruptcies, cuts in banking credit, huge losses in the financial markets, growing budget deficits which drew funds from the capital market, and other outcomes of the financial crisis dramatically reduced economic activity, bringing company closures and job losses.

Notwithstanding the transmission mechanisms of the financial crisis and the fact that its initial impact was similar to that of the 1930s, there are at least two specific characteristics of the current crisis that have dramatically increased its impact on states. First, during the 1930s the main victims of the crisis were banks and firms. Secondly, governments did not intervene in the economy during the early phases of the financial collapse. In contrast, in the recent financial crisis, governments immediately supported banks to avoid collapse of the whole economy. However, this policy moved the risks associated with bankruptcy from banks to governments. This is one of the main characteristics of the global crisis.

As happened in the 1930s, the crisis has not been confined to the economic field. Its impact on politics and society is as relevant as its impact on the economy; and of course, its implications for nation states have depended on the specifics of their domestic situations. In this article, we will discuss the impact on Italy and its possible outcomes – outcomes that will shape Italian politics for the foreseeable future. Attention will be focused mainly on politics and society, although we will often refer to the economy to explain political and social developments.

Italy before the crisis

In 2008, when Prodi's government collapsed and Berlusconi and the Right regained power in Italy (Pasquino, 2008; idem, 2009b), the global crisis was just kicking in. This led the Berlusconi-led coalition to offer an election manifesto inspired by principles of austerity and financial stability, which was unusual for a coalition that had previously supported expansion and very expensive infrastructural projects such as the road bridge between Calabria and Sicily.

The main supporter of Berlusconi's 'New Deal' was the minister for the economy, Giulio Tremonti. The economic policy of the Right thus contrasted with that of previous Berlusconi governments (Vassallo, 2007). In fact, an Italian peculiarity since the 1990s is that the Left has supported financial stability and reductions in public debt and the budget deficit, while the Right has not hesitated to increase public debt and the budget deficit in order to support spending or to mask the problem of tax evasion. In other words, Left and Right in Italy have adopted economic policies that are the opposite of those of traditional European parties of the Left and Right.

The reasons for Berlusconi's and Tremonti's New Deal have to do with political opportunism. The developing financial crisis of 2008 crushed hopes of economic growth in subsequent years. So, an election manifesto based on expansive economic policies was not credible. The change in the

Right's economic policy was also influenced by such political considerations as the growth in electoral support for the Northern League and its pivotal position in the construction of parliamentary majorities.

During the first decade of the new millennium coalitions of both the Right and the Left held office in Italy, and none proved capable of solving the country's economic problems. Growth and, most important, long-term growth prospects remained limited. Employment policies based on expansion in the proportion of temporary positions resulted in low wages and restrictions of the rights of workers, mainly the younger ones. This reduced long-term family investment in houses, and savings, and discouraged marriage and child-bearing.[1] In the meantime, the quality of educational provision, from the primary through to the university sectors, worsened because of budget cuts, unsuccessful reforms, and a decline in the minimum standards required of students; while the devolution of certain welfare services induced regional governors, aiming for re-election, to cut, fully or in part, prescription charges and citizens' contributions to the costs of hospital treatment and other health services. Thus the costs of public welfare provision increased.[2]

The devolution of health services to regions was part of a general process of devolution started by the Left in the late 1990s and continued by the Right from 2001 under pressure from the League. This process shifted the management of crucial services such as hospital and health assistance to a level of government that is closer to citizens and thus more sensitive to electoral pressures and short-term considerations. The result was an increase in the costs of public administration and larger qualitative and quantitative disparities between northern and southern regions. The former are richer and so they have larger tax bases and are able to offer more services to their citizens. Until the crisis, disparities were compensated in part by state fund transfers but this policy is now under revision. In fact one of the main political aims of the League is the introduction of so-called fiscal federalism. This means transferring to regions not only power over specific policy areas, but also control of the fiscal resources collected within their administrative boundaries. In other words, fiscal federalism implies a reduction of fund transfers to the central state, a process that reduces the latter's ability to redistribute funds to poorer regions from the richer ones. So, regionalism in Italy risks dividing the state instead of reforming it.

Electoral power explains the influence of the League on the economic policy of Berlusconi and Tremonti. Both of the previous Berlusconi governments had problems of stability because of conflict among the parties belonging to the ruling coalition. However, as the Prodi government collapsed in 2008, Berlusconi succeeded in merging his party (Forza Italia) with the National Alliance (Alleanza Nazionale, AN) the party of his main ally, Gianfranco Fini. A new party called the People of Freedom (Popolo della libertà, PdL) emerged, led by Berlusconi. Due to the defection of the Catholic Union of the Centre (Unione di Centro, UDC) the new coalition of the Right for the 2008 election was composed of the PdL and the League (Pasquino, 2008; idem 2009b). By contrast, the previous coalition led by Prodi disbanded and its main components ran separately. This was a consequence of the creation of the Democratic Party (Partito Democratico, PD), a new formation bringing together parties of the Left but excluding the more radical members of the Prodi coalition, while claiming for itself a position as the leading party of the Left (Pasquino, 2009a).

The 2008 national elections were a tremendous success for the Right, which gained the largest parliamentary majority in twenty years. [3] However, this success consolidated the League's pivotal role in the coalition. It greatly empowered Tremonti, the main link between the League and the PdL. Moreover, Berlusconi's judicial problems increased his dependency on the League – thanks to his need for its support to approve laws designed to 'protect' him from the judges.[4] Also, it was evident that within the coalition of the Right electoral support for the League was growing and that survival of the coalition in the long term would be increasingly dependent on it.

Economic impact of the crisis

The Lehman Brothers collapse in September 2008 revealed the seriousness of the crisis and it represents the starting point of the economic emergency for Italy. Until then, during the early phases of the financial collapse, Italian banks and investors had suffered little. The problems of the American housing market had not affected Italy. Italian financial institutions did not own a large quantity of sub-prime bonds. There were problems with derivatives stipulated in Italy by some of the larger banks with local administrations that faced bankruptcy when the crisis arrived, but the state imposed a solution on the banks.

The Lehman Brothers collapse initiated the most dramatic phase of the crisis by bringing about a contraction in the interbank loan market. Banks refused to lend money to each other because of a lack of liquidity and uncertainty about the financial soundness of borrowers. The liquidity crisis induced governments to support national banks with loans, and the European Central Bank cut the discount rate. However, banks reduced the availability of credit to clients to regain liquidity. This was the phase in which the Italian economy joined the international crisis. In Italy there are a few large banks and many small and medium-sized banks operating on a regional scale. The crisis touched the larger banks, which lost funds as a result of the Lehman Brothers crash, or found their assets devalued by the stock-market collapse. However, Italian banks were not very heavily involved in highly speculative sectors. The main problem for Italian banks, apart from the reduction in liquidity, came from links with Central and

Eastern European countries. In fact, from the 1990s some Italian banks, and in particular Unicredit, had extended their network of branches and affiliated banks to the then candidate countries, now members, of the European Union, and to Ukraine. There was a risk of the collapse or illiquidity of this part of the network. So Unicredit shares lost value because there were doubts about its financial solidity. However, the support of the Government enabled a banking crisis to be avoided.[5]

Small and medium-sized banks instead reacted to the liquidity crisis by reducing credit to clients and consumers and raising the amount of collateral required for new loans. This policy reduced investment in machinery and houses and threatened the viability of small and medium-sized firms in various sectors, in particular the more obsolete or export-oriented of them. Moreover, credit restrictions and pessimistic outlooks deterred consumers from spending. So, sectors such as real estate, house-building and cars collapsed.[6] Industries reacted in various ways. First, they reduced profit margins and costs. Second, they reduced the number of full-time, permanent jobs on offer. While growing unemployment mainly affected young and low-paid workers, dismissal of higher-paid permanent staff was rare (Bugamelli et al., 2009: 20), at least in large and medium-sized firms. Larger firms internalised part or almost all of the production process. In this way they passed some of their problems on to sub-contractors. Finally, larger firms delayed payments to their suppliers and negotiated lower prices. In this way too therefore, did medium and small-sized firms bear the costs of the crisis (Bugamelli et al., 2009: 7).

Of course, the economic crisis also involved public finance. The reduction in economic activity cut the amount of tax collected, and anti-crisis policies increased expenditure. This resulted in dramatic increases in the budget deficit and public debt.[7] Also, the reduction in GDP increased the ratios of debt and deficit to GDP, which meant breaching the parameters of the Growth and Stability Pact stipulated as part of European Monetary Union.[8] As a consequence, Italy is today in excess of the Pact's parameters and risks triggering the excessive deficit procedure of the EU Commission.

Reducing debt and the deficit is difficult for various reasons. Some of them are obvious, like the reduction in tax receipts or the costs of anti-crisis measures and are common to other EU member states; others are specifically Italian. One of the latter is the difficulty in controlling the spending of local administrations and independent bodies such as universities. Local administrations in Italy are structurally predisposed to financial instability. In fact, their duties and their financial resources are dependent on central-government decisions and national legislation. Changes in both of them often create serious financial stress and shortages of money for local administrations because new duties are not always matched by new funds. Moreover, some wage increases of local administrative staff are automatic. On the other hand, some local taxes have remained unchanged for a long time. This is a long-standing problem for the budgets of local authorities, and the abolition of such important taxes as the local property tax (Imposta Comunale sugli Immobili, ICI) has worsened the problem.[9] Past administrative shortcomings have required government intervention so that funds have needed to be transferred from the state budget to provide basic services which local administrations have, thanks to their failures, been unable to provide themselves.[10] In 1999 an Internal Stability Pact was introduced in an attempt to bring local finance under control,[11] especially in sectors such as health services, which today represent the largest item in the regions' budgets. However, conflicts have arisen between government and local administrations, mainly regions, about the costs declared for basic health services and the southern regions' capacities to acquire and use European funds (*la Repubblica*, 3 July 2010).

Universities and university reform are another chronic problem that government has tried to solve since the start of the millennium. University policy until the end of the 1990s dramatically increased the number of professors and lecturers and, as a consequence, universities' costs. In spite of increases in the then very low fees paid by students, universities' budgets worsened and risks of bankruptcy became real. Moreover, automatic wage increases every two years and the low thresholds for career advancement of many lecturers and professors made the budget more rigid and difficult to cut.[12]

Government policies against the crisis

Berlusconi's government dealt with the crisis in two main ways: supporting banks and large firms, and cutting public spending. At first glance, this kind of policy seems correct. Supporting banks avoided the domino effect of their fall; support for large firms allowed them to retain their employees. Cuts in public expenditure rather than tax increases avoided negative impacts on investment and consumers' expectations.

This policy had also been recognised as the correct one by the Opposition. However, the way in which the Government put it into practice is more questionable, and it was criticised for a lack of transparency (support to banks), inefficiency (support to firms) and inequity (cuts). In particular, cuts were not distributed among different social groups but concentrated mainly on the public sector and the pay of public employees.[13] Also, cuts in the funding of public-sector agencies were not accompanied by any real changes in their responsibilities or structures. Government simply cut state transfers and payments, dismissing criticisms of them with arguments which the Opposition claimed were ideological and designed merely to justify reducing services and dismantling the public sector. In other words, Berlusconi's government confronted the crisis with a correct view of economic policy but without a correct strategy.

Regions, universities and public employees were the main victims of the cuts and it is impossible to deny that ministers and newspapers fought a long propaganda campaign against these sectors. Regions and public administrations, particularly those in the South, were depicted as inefficient and badly managed while public employees were portrayed as idlers. The minister for the public administration, Renato Brunetta, initiated a campaign to increase productivity and punish employees who failed to perform their duties adequately or were guilty of indiscipline. Finally, newspapers portrayed universities as centres of corruption, nepotism and non-meritocratic career advancement. So, when the Government announced cuts, restrictive policies and reforms in these sectors it relied on the approbation of the majority of electors.

The criticisms of local administrations, public employees and universities are not totally unfounded and some of the Government's reforms may as a result be useful. However, they have two limitations. First, they do not consider the reasons for the existing situation. If they are carried out, the lack of impact of government policy on the problems that need solving should be evident. During the so-called First Republic and later, the Italian government regarded public administration as a kind of tool against unemployment and as an electoral reserve (Bull and Newell, 2006; Cotta and Verzichelli, 2007). Efficiency and meritocracy were sacrificed to the creation of a large number of low-paid jobs, and assurances that employees would not be fired. So, today the problem is not that public employees do not work enough; the problem is that there are too many of them. Second, the origin of the attacks is mainly political. People employed in the public administration and universities vote mainly for the opposition parties of the centre left. So, penalising them does not erode the electoral base of Berlusconi's government. Also, the image of public employees and the public administration as corrupt, oppressive, inefficient and expensive is the same as the one that has been asserted by the League since the early phase of its rise. So, the ideological and political reasons for choosing the sectors to bear the costs of budget cuts are evident. Berlusconi's interests in the financial sector are the explanation critics give for his lack of transparency in the state's support for banks. Berlusconi's opposition to rules to limit the financial operations of banks and financial intermediaries carried on in the European Council and G8/G20 meetings increased suspicions that he had personal interests in the matter. However, critics of the ways in which governments have supported banks are common all around the world. In Italy too critics have focused on the lack of new rules against speculation, the huge bonus payments made to managers and the non-repayable financial support that has been given to banks.

Finally, Berlusconi's industrial policy for combating the crisis displays all the traditional limitations of Italian industrial policy. Italian industry consists mainly of large numbers of small and medium-sized enterprises (SMEs) and a few large firms such as Fiat. The post-war model of Italian development was based on an export-oriented economy and the autonomous ability of SMEs to create jobs and growth, while the state supported larger firms with funds and other kinds of aid. Moreover, many of the larger firms were controlled by the state through the Institute for Industrial Reconstruction (Istituto per la Ricostruzione Industriale, IRI) or the Ministry for State Shareholdings (Ministero delle Partecipazioni Statali).[14] Both kinds of firm had a political function in providing a reservoir of electoral and financial support to the ruling parties. This model of development reached a crisis point approximately twenty years ago when privatisation started and the financial needs of the state required higher taxation of small firms. Also, many of these firms were obsolete or involved in production in low-wage sectors.

The growth of foreign competition in Asian and East European countries where wages were much lower than in Italy and where workers' rights were absent destroyed the basis of the Italian growth model. Some Italian firms transferred their production facilities to underdeveloped countries; other firms closed, and some of the remaining ones decided to modernise. Although governments of the early 1990s was conscious of the unsustainability of the traditional model and of the need to move towards high-tech production, the dramatic political crisis of the time and the near bankruptcy of the Italian state blocked attempts to define a new model of development.

Since then no government has been able to define such a model either, and consequently growth rates have declined.[15] In certain sectors such as metallurgy or cheap textiles, the number of factories and employees and the scale of production have fallen dramatically, while some of the sectors identified since the 1960s as the drivers of growth (e.g. chemicals) have been beset by crisis after crisis with many large firms such as Ilva, Montedison and Parmalat losing their leading role in the Italian economy. Today, there are almost no large firms in Italy apart from Fiat. Instead, certain medium-sized firms, such as Ferrero, Iacuzzi and Ducati, have gained an international reputation while certain smaller firms have gained leading positions internationally in niche markets as the manufacturers of machinery for very specific production processes. While they represent examples of the definition of new models of development this has not been sufficient to compensate for the unemployment and reduction in growth caused by the crisis of the early 1990s and the absence of reform of Italy's industrial structure.

The current crisis will probably be an opportunity for defining a new model of development in Italy. However, it is essential to solve some critical problems. One of them is the lack of any strong connection between research and production. It is impossible to move towards a high-tech economy without a solid background of knowledge and the potential to apply research results to production. In Italy few industries fund university research and few industries or institutions have their own research sections. Usually, Italian firms drain technicians and administrators from universities and train them in-house for their specific functions. However, research is of poor quality in small and medium-sized firms, apart from those already involved in high-tech production. Also, several Italian firms work with foreign patents and rely on foreign research activities.

The distortions in the Italian university system, and the tradition of Italian firms of seeking to offload costs onto the state, explain the situation in part. However, the lack of laboratories and university infrastructures, the inability of Italian universities to attract foreign researchers, poor investments in R&D activities and the almost bankrupt position of many universities, make the problem worse. Until the early 1990s the gap had been compensated for by the high standard of scientists and technicians produced by universities, but reforms in the late 1990s reduced this standard, and new graduates are not as well educated as the older ones. Berlusconi's government is trying to reform the university system through the so-called Gelmini Reform, which provides for the introduction of meritocratic criteria for the funding of universities.[16] The reform introduces new forms of governance and evaluation of research and teaching. A small part of state finance to universities will depend on the results of this evaluation. In the meantime, professors' and researchers' salaries will be more closely tied to their performance and automatic pay increases will be limited. Unfortunately some aspects of the reforms such as the absence of more investment, and their timing, suggest that their main goal is simply cutting the costs of public institutions.

Other problems are the costs of politics, and relations between enterprises and the public administration. Italian administrative structures suffer from a superimposition of levels of governance due to the incomplete substitution of provinces by regions in the late 1970s. Provinces continue to exist and this adds to administrative and employment costs and the costs of elections. The Italian parliament, thanks to a so-called redundant bicameralism giving Chamber and Senate the same functions (Cotta and Verzichelli, 2007) is in a similar situation. Proposals for abolishing the provinces have been blocked by the League which controls many provincial administrations in Northern Italy. A proposal to reduce dramatically the number of deputies and senators has not been carried through. All these costs fall on the state budget and sustain high taxation while reducing the funds available for investment. Red tape creates for firms and entrepreneurs large numbers of administrative obligations many of which are very expensive in terms of time and the fees of legal and administrative consultants. Many of the attempts to speed up the bureaucratic procedures associated with the creation of new companies have been unsuccessful – though the attempts are almost useless anyway if other bureaucratic procedures and restrictions continue to obstruct company operations. Last but not least, corruption and clientelism have quickly reappeared since the late 1990s and have distorted competition. Besides, complex bureaucratic procedures create opportunities for extortion by public officials at the expense of entrepreneurs.

Finally, an essential requirement for the reorganisation of small and medium-sized enterprises and their shift to high-tech production is a move away from owner supervision to the supervision of skilled managers. Italy is paying the costs of its initial model of growth. Many SMEs are too small or under-capitalised to compete and produce efficiently. If not managed by the children of their founders, they continue to be managed by their founders – who were able to establish and consolidate the firms at a time when hard-working entrepreneurs were able to manage businesses notwithstanding their poor education. However, they do not have the skills for managing the transition to medium and large-sized industries or to high-tech production; and personal management obstructs company mergers because of the resistance of founders who fear being marginalised or excluded in the process.

Reorganising the SME sector could be the basis for starting a new phase of development and for increasing employment. However, such reorganisation requires a well-planned and efficient industrial policy which governments hitherto have never had.

Berlusconi's government declared that it would pursue various objectives to address some of the problems described above. However it is has performed poorly in this area. Institutional and administrative reforms have been delayed and obstructed by opposition within the ruling coalition; and agreement on specific reforms with the opposition parties has been made impossible by these parties' lack of trust of Berlusconi. Reform of universities and the public administration seems mainly to have been oriented towards cutting costs rather than supporting efficiency and innovation; and there has been no innovation in government industrial policy.[17] Finally, the Government has devoted so much time to legislation designed to protect specific interests (mainly Berlusconi's) that it has had little attention or time left to devote to initiating structural reforms.[18]

Social and political impact of the crisis and government policies

Both economic turmoil and government policies have shaped the reaction of Italian society to the crisis. This reaction has influenced social behaviour as well as electoral choices.

Job losses have obviously been the most significant social impact of the crisis. The unemployment rate remained almost stable during the initial period of the downturn but increased dramatically in 2009, with further increases expected in 2010 (see Table 1). In the meantime, inactivity rates have increased, probably because of discouragement, and the disincentives on the long-term unemployed to search for jobs. Although unemployment in Italy is concentrated in the South, the reduction in employment has mainly affected the northern regions (ISTAT, 2010b: 101). Moreover, the rise in unemployment has been concentrated in certain categories (younger people) in specific sectors (hotels, restaurants, construction, certain industrial sectors) in specific types of employment (involving consultancy and short-term contracts)[19] and among small-scale entrepreneurs (small-business owners, craftsmen and the self-employed). In the latter case, small entrepreneurs employing fewer than ten workers have often dismissed some or all of them and continued their activity alone (ISTAT, 2010b: 111). Finally, the crisis has caused a rise in part-time employment accepted by workers seeking to keep their jobs despite falls in production (ISTAT, 2010b: 114).

Table 1: Main economic indicators

	2006	*2007*	*2008*	*2009*
GDP[1]	1,429	1,485	1,544	1,572
Deficit[4]	49,403	23,191	42,575	80,800
Public debt[3]	1,559	1,590	1,644	1,729
Deficit/GDP (%)	3.6	1.5	2.7	5.3
Debt/GDP (%)	106.5	103.5	106.1	115.8
Industrial Production[2]	100.5	105.2	107.4	86.3

Notes: 1. Billions of euros; 2. January data; index numbers; 2005=100;
3. End of the year; billions of euros; 4 End of the year; millions of euros

Sources: www.istat.it/grafici_ra/crisi/pilue.html; www.istat.it/grafici_ra/crisi/produzioneindustriale.html; www.istat.it/dati/catalogo/20100315_00/; ISTAT (2010), *Contabilità nazionale: Conti economici nazionali 1970-2008*; Eurostat (2010), *News Release Euroindicators*, 55, http://ec.europa.eu/ eurosta/euroindicators; Banca d'Italia, *Base informativa pubblica*, http://bip.bancaditalia.it/4972unix/homebipita.htm (all the web sources accessed 1 September 2010).

Poor employment prospects and prospects of future insecurity have increased the marginalisation of certain social groups such as young people in search of jobs or career opportunities. Young people are the main victims of the rise in unemployment, which has increased continuously since 2007 (see Table 2). In fact, a large number of short-term workers and collaborators, i.e. the categories most affected by the crisis, are young. They are also the main component contributing to the rise in the inactivity rate.[20] We must also bear in mind that the category of active people includes students, who are also of course mainly young. The crisis has dramatically worsened their prospects of finding employment once they graduate. Prospects have also worsened for those who have already graduated.

Table 2: Rates of unemployment (%)

Year	*Total*[1]	*Annual variation*	*Juvanile*[2]	*Annual variation*
2004	7.9		23.7	
2005	7.6	-0.3	23.6	-0.1
2006	6.2	-1.4	20.0	-3.6
2007	6.7	0.3	21.1	1.1
2008	6.8	0.1	22.8	1.7
2009	8.5	1.7	26.9	4.3
2010[3]	8.7	0.2	29.2	2.3

Notes: 1. Figures for December; 2. 15–24 years old; 3. Figures for May (provisional)
Sources: ISTAT, www.istat.it/salastampa/comunicati/in_calendario/occprov/2010 0702_00/ (accessed 1 September 2010)

This is an outcome of the crisis only in part. The reduction in teaching quality, mainly at universities, and the illusion that economic growth can be supported by increasing the number of graduates, has induced governments, in the last ten to fifteen years, to 'dumb down' instruction and lower the standard of graduates. This, through the simplification of exams, has resulted in grade inflation so that young graduates in Italy today have fewer critical capacities and fewer skills, but higher grades, than older graduates. However, many employers have stopped considering final grades as reliable indicators of personal qualities and find it difficult to choose among first-level graduates coming onto the labour market. So, the most brilliant students have fewer job opportunities; many first-level graduates continue their studies simply in order to gain more prestigious qualifications, and many graduates find themselves in jobs for which they are over-qualified. The result is discouragement and disappointment for young people with a reduction, in the last few years, in enrolment in universities.

Notwithstanding the concentration of unemployment among younger workers, older workers have not been unaffected by the crisis. In fact, if most of them have permanent positions, the threat of closure of their factories leaves them facing the possibility of being driven back into a labour market where their prospects of competing are poor. Well-qualified managers and white collar workers, if older than 40, have extreme difficulty in finding alternative jobs.

Immigration and high birth rates among immigrants have reduced the demographic impact of the crisis. Unfortunately, the large number of legal and illegal immigrants in Italy has accentuated, among native Italians, the traditional growth of xenophobia that takes place in times of crisis.

Rising unemployment and the Government's inability to develop new policies to tackle it, apart from the traditional industrial subsidies aimed at keeping employees in work, have also shaped the development of negotiations between employers and trade unions. Fiat, the main car producer in Italy, recently promised to move production of a new model from Poland to Pomigliano d'Arco, but asked the trade unions to agree to changes in the rules governing workers' obligations and strikes. The main trade union in the car sector (FIOM/CGIL) opposed the request, fearful that accepting the proposed new terms of employment could open the door to a redefinition of labour relations generally in Italy.

Fiat and the trade union which accepted the car maker's proposal invited workers to participate in a referendum on the matter, but Fiat insisted that the vote in favour would have to be overwhelming if it were to keep its promise. Only 63 percent of workers voted in favour of the agreement and this represented an unsatisfactory result as far as Fiat was concerned.[21] The firm's decision to move production from low-wage countries like Poland to higher wage areas like Italy apparently seems economically irrational. However, Fiat relies on the support of the Italian government to keep people in work in the high-unemployment area of Pomigliano, and more stringent contractual conditions may be sufficient to cover the gap between staff costs in Poland and in Italy. So, the principal ingredients of industrial strategy seem the same as those of fifty years ago: low wages; limited rights for workers; state subsidies.

Global crisis has also shaped the political balance in Italy. High levels of criminality attributed to immigrants; accusations that the central administration is corrupt and inefficient; high levels of taxation: all these have contributed to a growth in electoral support for the League. On the other hand, the League's prominent role in government and the evident shift in government priorities towards policies the League champions create political space for internal and external opposition to Berlusconi's coalition.

This seems the case with Fini, Berlusconi's main ally until a year ago. After the 2008 elections he became president of the Chamber of Deputies and started to criticise Berlusconi and his government, mainly for its policies on justice. It seems that Fini, frequently described as the natural successor to Berlusconi, was intolerant of Berlusconi's prominence in the new party into which Fini had driven the party he led (the National Alliance). On the other hand, the electoral base of AN was located in southern Italy so Fini could not accept dismantling of the central state of the kind the League was seeking to achieve. The emergence, within the PdL, of a faction led by Fini (Futuro e libertà), and the subsequent split, has undermined the stability of Berlusconi's government and immeasurably increased its dependence on the support of the League. Consequently, the crisis has empowered the League and weakened Berlusconi's government at the same time.

Conclusion: global crisis in Italy, a lost opportunity?

In Italy, the global crisis has impacted on a system that had deteriorated following twenty years of political instability and economic decline. So, it has only worsened conditions in a country already in crisis. The circumstances responsible for Italy's decline and the avoidance of structural reforms have also prevented attempts to use the global crisis as a stimulus for rescuing the country and reforming the system. These circumstances are the long-term effects of the early 1990s collapse; of widespread corruption (which blocks the application of meritocratic criteria and adds to business costs); the absence of any new project for economic growth, and, more generally, the lack of a governing class able to spearhead thoroughgoing reform.

Berlusconi is part of the problem, not the whole problem. His leadership is almost exhausted, and sexual scandals and long-standing judicial problems make him a problem for his own party. His ambition to create a hegemonic party, as the Christian Democrats had been in the past, has failed and has resulted in a continuation of Italy's decline instead of the 'new Italian miracle' he promised in the early years of his political career. Moreover, the electoral coalition that gave him victory in 1994, 2001 and 2008 has disintegrated. It was based on a twin alliance with the League in the North and AN in the South. The irreconcilable differences in the interests of the electoral bases of the two allies made it difficult to balance their influence but gave Berlusconi a pivotal role in the coalition. The League's growing influence in government undermined southern-based parties and factions, such as Fini's, or the Movimento per le Autonomie, a small party influential in Sicily.

Unfortunately, the opposition parties seem unable to offer a potential alternative government of high calibre or a new project for Italy, either. Conflicts within the largest of the opposition parties (the PD) and the decline in its voting support; irreconcilable policy differences between the PD and the parties of the radical Left; the lack of innovative political and economic ideas: all these render the Opposition weak, severely undermining its capacity to compete with Berlusconi. The current government may therefore fall as a result of an internal collapse, but it seems unlikely that it would in that case be replaced by any worthwhile alternative.

In conclusion, therefore, the global crisis will almost certainly turn out to have been a lost opportunity for Italy to reverse its economic and political decline.

Notes

[1] Marriages declined almost constantly from the 1970s and the trend has continued since 2000, declining especially sharply between 2000 and 2004. The proportion of marriages involving a foreign partner increased constantly during the period from 2004 to 2008 (see ISTAT, http://demo.istat.it/altridati/matrimoni/). Births of Italian children declined almost constantly after 2000 while foreign childbirths (declared) in Italy increased from 20,339 to 72,472 amounting to 94 percent of the total increase in births in Italy during the period from 1999 to 2008 (see http://demo.istat.it/altridati/IscrittiNascita/index.html). All web sources accessed 1 September 2010.

[2] Public health expenditure increased from €66,543 million to €106,505 million during the period 2000 to 2008 (see www.istat.it/sanita/sociosan/, accessed 1 September 2010).

[3] The coalition of the Right (PdL and Lega) won 344 seats of the 630 seats in the Chamber of Deputies and 174 seats of the 315 in the Senate.

[4] The Government proposed at least two *ad personam* laws designed to enable Berlusconi to solve his judicial problems. The first was the so-called Lodo Alfano proposed by the minister of justice, Angelino Alfano. The law granted immunity from prosecution to people in prominent positions, such as the President of the Republic and the Prime Minister himself. This law was then declared invalid by the Constitutional Court. Another attempt to help Berlusconi was the so-called *legittimo impedimento* (legitimate impediment). This law allows prominent politicians (mainly ministers and the Prime Minister) under investigation to delay court appearances if they clash with official commitments. In this way trials are drawn out and thus more likely to have to be abandoned thanks to the statute of limitations.

[5] The Government responded to the risk of banking crisis by introducing law no. 190 of 4 December 2008, and law no. 2 of 28 January 2009. These provided that the Government would guarantee bank deposits to a maximum of €103,000 in the event of a bankruptcy and that it would assure the payment of banks' debts.

[6] Bugamelli, Cristadoro and Zevi (2009: 11) estimate that in the period from January 2008 to June 2009 production fell by more than 35 percent in sectors such as electrical machinery, metallurgy, and cars.

[7] During the period from 31 December 2006 to 31 December 2009 Italian public debt increased from €1,559 billion to €1729 billion. In the same period the deficit rose from approximately €49 billion to €81 billion (see Banca d'Italia, *Base informativa publica*).

[8] In 2009 the ratio of the budget deficit to GDP was 5.3 percent rather than the 3 percent maximum provided for by the Stability and Growth Pact. The debt-to-GDP ratio increased dramatically from 106.1 percent in 2008 to 115.8 percent in 2009 (Eurostat, *News Release Euroindicators*, 55 (2010), http://ec.europa.eu/eurostat/euroindicators (accessed 1 September 2010)).

[9] ICI (Imposta comunale sugli immobili) is a tax paid by householders to their municipalities. The tax was introduced in 1992 and partially abolished in 2008.

[10] This was the case of Catania's city administration and Campania's regional administration – where the Government had to intervene to deal with an emergency in the waste collection service when the local administration proved financially and logistically incapable of fulfilling their duties.

[11] Article 28, law no. 448, 1998.

[12] During the period from 1997 to 2008, the numbers of academic staff in Italian universities grew from 49,187 to 62,768. In 2009 the number fell by approximately 2,000 due to the retirement of full professors. In 2009 there were 17,880 full professors, 17,567 associate professors (senior lecturers) and 25,435 lecturers (data from the Ministero dell'istruzione, università e ricerca). This is an abnormal distribution of academic positions, with an unusually large proportion of full professors.

[13] After debate in Parliament and protest by diplomats and judges, cuts were rescinded for all but academics.

[14] IRI (Institute for Industrial Reconstruction), established in 1933, and the Ministero per le partecipazioni statali (Ministry for State Shareholdings), established in 1956, were the main institutions managing the processes of state intervention in the Italian economy. The Ministero per le partecipazioni statali was abolished in 1993; IRI ceased to exist in 2002.

[15] In 2002, 2003 and 2005 Italy's GDP growth was lower than 0.3 percent.

[16] Maria Stella Gelmini is the minister for education, universities and research.

[17] Following Minister Scaiola's resignation in May 2010 Berlusconi added to his duties as Prime Minister, those of minister for economic development ad interim. This reduced dramatically the efficiency effectiveness of the ministry's operations.

[18] From May to July 2010 political debate was monopolised by the so-called *legge bavaglio* (gagging law) which proposed limits on what newspapers were allowed to publish about the contents of police telephonic interceptions. This problem affects various members of the Berlusconi government (and some members of previous governments) whose telephone conversations, including discussion of sexual and other personal affairs, had been intercepted.

[19] 63 percent of the total rise in unemployment is accounted for by job losses among collaborators and temporary employees (see ISTAT, 2010b: 107).

[20] In particular the rise in inactivity includes those under 30 who live with their parents (ISTAT, 2010b: 121).

[21] In late July 2010, Fiat announced its intention to abandon its investment plans for Pomigliano d'Arco in favour of new plants in Serbia. It also created a new company, the Fabbrica Italia Pomigliano, and separated the Pomigliano factory from its Fiat Group Automobili. The new firm will not be a member of the Italian association of industrialists (Confindustria), which means that labour contracts will

be not regulated by the national contracts for mechanical workers. Fiat too plans to leave the association (*la repubblica*.it, 29 July 2010) .

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