

Who Rules Italy? The Power of Wasting Time

By Alessandro Aresu

1. Who are the power brokers?

An answer to the question “Who rules Italy?” is needed both to provide investors with some understanding of how the country really works, and to succeed in any serious project of reform. Unfortunately, most answers to this question are vague and muddled. The Italian expression to identify power in a vague way is “poteri forti” (strong powers). In 1994, Pinuccio Tatarella, the then deputy prime minister, tried to identify those powers: “The Constitutional Court, the Consiglio Superiore della Magistratura (the self-governing body of Italy’s *ordre judiciaire*), Enrico Cuccia’s merchant bank Mediobanca, the secret service, Freemasonry, Opus Dei, the Central Bank of Italy, the major publishing groups and the big businesses”. Like most conspiratorial theories of power, Tatarella wrongly assumed a wide agreement between the rulers, and not a process of bargaining and conflict. But during the last twenty years, the understanding of power by Italy’s elite has even been more vague.

Consider the three-polar political class of today’s Italy. The left’s idea of power is naïve and pitiful: “Berlusconi rules over Italy, but strong international and domestic powers such as the newspaper *Il Corriere della Sera* conspire against the right to govern for the leftwing coalition”. In reality, who usually “conspires” against leftwing parties are the voters themselves. Berlusconi’s idea of power is simple: “I have no power and the real rulers of Italy are my enemies: judges, communists, and all my allies I fight against, including former Economic minister Giulio Tremonti”. The Five Star Movement’s idea of power is based on three “caste” (“castes”): the firms listed in Milan’s Piazza Affari (on which the consultancy agency *Casalaggio Associati* has provided a “map of power” published in 2007 in Beppe Grillo’s blog, that highlighted the relationship between boards of directors), the Parliament and the parties. On the sidelines there are journalists, who are considered a “caste” or “caste-in progress”, depending on their income.

Let us perform a quick check on these theories.

2. Piazza Affari: much ado about (nearly) nothing.

According to Beppe Grillo, Piazza Affari is the center of power in Italy: in 2007 he wrote in his blog that Palazzo Chigi (the residence of the Italian prime minister) cooks breakfast to the power brokers in the Milan stock exchange. Actually, Piazza Affari is now a dwarf-like presence in international financial markets: during the last 10 years, the Milan stock exchange has shrunk from ninth to twentieth place in the world in terms of market capitalization. The leftist complaints of “neoliberalism” do not find any support in the relationship between stock market capitalization and GDP. Piazza Affari is not attractive for IPOs. In 2011, Prada listed in Hong Kong. In 2012, among others, the Benetton Group delisted and the Italian presence in the London Stock Exchange

fell from 15% to about 3.5%, due to the sale of their 6.4% stake by Unicredit and 5.4% by Intesa San Paolo. The stars of “Made in Italy” have basically decoupled from Piazza Affari (consider the comparison between Campari, Luxottica, Tod’s and the overall index) and from the poor performance of Italy’s banking system (try telling that there has not been a patrimony tax to a long term investor who bought MPS or Unicredit in 2007, now down about 90%).

The Italian stock market then highlights the buoyancy of the elite and the obsession with issues (such as controlling the *Corriere della Sera*, Italy’s major newspaper) which have little or nothing to do with the national interest. Italy’s stock market is dominated by the “family jewels” in strategic sectors for the State (particularly ENI and ENEL). In a 2012 report, J.P. Morgan challenged the perception of excessive weight of Apple on the S&P index (4%), and put ENI’s weight in the Italian index (21%) in second place in major world markets, preceded only by Nestlé (25 % of Swiss SMI), widely ahead of Samsung (Korea, 16%), Total (France, 14%), Siemens (Germany, 9%). On 30 January 2013, the Milan index closed at -3.36%, due to the huge impact of ENI’s -4.97%, severely hit by the great crash (-34.38%) of Saipem.

3. Where is political power?

As far as the Parliament is concerned, the genius of the 5 Star Movement lies in its alignment with the idea of the average Italian voter who is convinced that each single member of Parliament is “powerful”. This is completely wrong. Italian MPs do have a good salary, but the Parliament does not have much influence on the legislative process, which is dominated by the executive through decree-laws (consider the ECB’s letter in 2011, recommending reforms through “decree-laws, followed by Parliamentary ratification”). It is estimated that the 50% of laws are related to urgent decrees (which are supposed to be exceptional measures). At the same time, single MPs do have the power to slow down the legislative process: more vetoing power than policy power. Overall, the majority of them are much more engaged in giving statements to journalist and press agencies than in political projects. Therefore, they are not really mechanisms of a democracy. It would be more appropriate to call it a “vetocracy” and a “presscracy”.

If the Parliament does not matter much, is the power of parties dead? Not at all: it survives at the local level, which is celebrated as *il territorio* (“the territory”). Most job appointments in banking foundations (the cornerstone of Italy’s credit system), health agencies, industrial agencies and thousands of subsidiaries certainly are not decided by Olli Rehn or by Moody’s. Politicians decide on such appointments, particularly at the regional level: this has generated a flawed mechanism of revolving doors whose goal is often the survival (and sometimes the immortality) of local politicians. The health deficit of regions, such as the EUR 10 billion debt in Lazio, is one of the outcomes of Italy’s last lost decade. In the light of these considerations, local power, as suggested by the Five Star Movement, is the first truthful element of the parties’ view of power. As we will see, the second one is suggested by Berlusconi himself.

4. The real technocracy is bureaucracy.

For Italy, Draghi's ECB plays the same role as "the love that moves the sun and the other stars" in the cosmology of Dante Alighieri. More precisely, the ECB is the sun itself: without it, there can be no life (supply of money). The ECB puts Italy in relation with Washington and Berlin. Of course, part of that connection also depends on the President of the Italian Republic (the now-reelected Giorgio Napolitano, the former communist who puts to shame any other political figure in comparison) and the President of the Council of Ministers, the title attributed to Italian Prime Ministers. Probably Draghi stands at the very top though, particularly in the age of re-politicization of central banks. If you are Blackrock's Larry Fink or any other investor, the crucial words on Italy come from Draghi. The Quirinale (the official residence of Giorgio Napolitano) is at the top of what may be called the "land of wisdom": those institutions and entities which are still capable to give a direction even to a chaotic country. At the right side of the Quirinale stands the Bank of Italy, the last reserve of Italy's economic – and sometimes, political – elite.

The Monti government has been described as a technocracy. But what does technocracy really mean? His government included academics, such as minister Elsa Fornero, and exponents from the private sector, like former Intesa San Paolo CEO Corrado Passera, but it was actually dominated by the administrative technocracy: director generals of ministries, admirals, ambassadors. Their performance was very heterogeneous, from the worst performer Giulio Terzi, who presided to the marines' farce with India, to the top performer Fabrizio Barca, who significantly increased Italy's spending in European funds: a certified amount of EUR 9,3 billion in the 14 months from the end of 2011 to January 2013, more than the amount spent during the previous 58 months.

Italy seems to provide the worst of both worlds for public administration: neither a grand administrative State in the French tradition, nor a pure spoil system in the American way. The administrative technocracy within the staff of ministries is the real player of Italy's political process. The power of judges concerns these administrative decisions, more than the famous judges who are celebrated or insulted (depending on the political stance) by the media. As Italy's most renowned administrative jurist, Sabino Cassese, noticed: "the real engine of the ministries are the cabinets of ministers, at the head of which there are mostly members of the Consiglio di Stato (the legal-administrative body concerned with the legality of Italy's public administration), State lawyers, and councilors of the Court of Auditors".

5. The power to waste time.

Where does power lie, then? Consider the Ministry of Economy and Finance (MEF) in the XVI legislature. While Giulio Tremonti spoke philosophically of "white fascism" in Europe, in reality Giuseppe Chiné and Vincenzo Fortunato (respectively, head of legislative office and chief of staff of the MEF, both judges) were more important than the entire Italian Parliament. The crucial role of the MEF is proved by Silvio Berlusconi himself, who wrote in a letter on the refund of the home

property tax which he sent to millions of Italians before the elections: “The tax authority will send you a letter signed by the new Minister of Economy and Development (i.e. by myself!)”. After twenty years, Berlusconi does not want to be Prime Minister anymore: he wants to be Minister of Economy and Finance.

The MEF is Italy’s largest administrative body. Among its divisions, there are two essential institutions to Italy. The first one embodies “the power to say yes”, to operate “in support of the country’s growth”. It is the the Cassa Depositi e Prestiti (CDP), a body similar to Germany’s KfW and France’s Caisse des Dépôts et Consignations. Since 2003, it is a joint-stock company participated by the MEF (70%) and by banking and other foundations (30%). It became very popular during the last electoral campaign (“From the CDP” was the parties’ favorite answer to the question “Where will the money come from?”).

The second and foremost technical power of the MEF is the power to say no, or “the power to waste time”. At its center reigns the *Ragioneria Generale dello Stato* (General Accounting Service), a key player of the Italian legislative process. Conspiracy theories put much attention to the Bilderberg group, and very little to administrative bodies such as the State General Accounting, which is in all likelihood less known than the Bilderberg group in Italy. The State General Accountant until 17 May 2013, Mario Canzio, did not go to Davos and did not appear in Beppe Grillo’s blog, but in times of fiscal consolidation he has been probably more influential than any other Italian politician, manager or public administrator.

One should also never forget that when one talks about growth in Italy, the outcome is often more bureaucracy. Luigi Fiorentino published an outstanding analysis of the so-called “Decree Growth 2.0” (DL n. 179/2012). With crystal clarity, he explained that the actual implementation of policies on the Digital Agenda, innovative startups, public infrastructure works “require the adoption of several implementing measures: there are over seventy of them among decrees of the Prime Minister, ministerial decrees, government regulations and various measures of Consob, Italian Digital Agency and Institute for insurance supervision”. What does it mean? While we talk about the Italian Steve Jobs and the Italian Silicon Valley, the Decree poses “the fundamental question of the effectiveness of public action, which in our country is determined not by the Parliament, but by the administration”, in a policy of delays which “shifts not only secondary elements, but also the most relevant areas of decision making, from the Parliament to the State central bureaucracy”.

This is Italian power: neither an invisible nor a visible (and thus, debatable) hand. A “confused hand”.

6. Three scenarios for the future.

a. The useless attempt of tutelage. One outcome of this analysis could be: Italian sovereignty no longer works and must be completely transferred to Brussels. Let us try shared sovereignty

(shared by others), because we are unfit to govern and administrate. This solution is naive, because no troika can properly understand and solve the domestic challenges of Italy's public administration. Governing requires a deep understanding of the balance of all powers and of the relationship between national and international interests: skipping one level upwards is not useful. Do we really believe that the appointment of Olli Rehn as Regione Lazio's Health Commissioner by Angela Merkel could solve anything? Trying to solve Italy's woes with a mere tutelage would bring more social unrest and the rise of "cash powers" (i.e. those who have cash, especially the mafia) at the local level. As Mario Draghi memorably said in 2011, no foreign army can save Italy: it is up to us.

b. The triumph of bureaucracies through celebrities. Imagine the ascent to the premiership of acclaimed writer and activist Roberto Saviano. This leftist dream (the only coalition government putting together the left and the Five Star Movement could be made of writers, directors, actors, activists) would eventually cause the triumph of bureaucratic powers. Celebrities in government, in most cases, are initially appreciated by public opinion, because they are not politicians. But they are ignorant: they suffer of a lack of understanding and responsibility, particularly as far as the administrative process is concerned, which is on the contrary in dire need of reform, as we saw. The inconvenient truth is that the only way to reverse the political and social crisis is through parties. Not the old parties, but effective ones. What does that mean, exactly? The required training for a party member should not be listening to a lecture by Zygmunt Bauman during a cultural festival, but exercising as a "shadow State General Accountant", or at least acquiring a real expertise which is not prone to vested interests. Parties should have real policy forums, in order to raise proposals for the government. "Personal" think tanks dominated by the allegiance to leaders proliferate in Italy, but they are not useful. Beppe Grillo thinks that the Internet is the new State General Accountant? He needs to show how this may work. Finally, a more effective public policy asks for the renewal of politics, not for its abdication in favor of an irresponsible centralization. And Italy's bureaucratic problem would never be solved by propaganda or by following the illusion of a "grand reform". Those things aside, the political process needs to be much more effective. The Senate should be abolished. And the role of regions in health policy should be re-examined once and for all.

c. Time for a change? This analysis of Italian power seems to be as gloomy as the state of the Italian economy. However, during the last year we saw three signals of change.

First, the mayor of Florence, Matteo Renzi, during a debate of his campaign for the party's Primaries in 2012, said that "either we simplify, and we unleash economic energy which is now bridled in the hands of chiefs of staff in ministries, or we are going nowhere".

Second, in April 2013 the Sole 24 Ore (the newspaper of the Italian business association) opened a strong dispute with the State General Accountant on the issue of debts owed by the public administration to firms. The newspaper was outraged about Vittorio Grilli's (former General State

Accountant and Monti's Economic minister) admission of ignoring the total amount of such debt, and accused the State General Accounting Service of being a "heart of darkness" within the State despite its vast powers and a capillary structure. According to the journalist Guido Gentili, the General Accounting Service has reversed Luigi Einaudi's motto: from "knowing in order to decide" to "ignoring so as not to decide".

Third, the Letta government actually substituted both the chief of staff of the Ministry of Economy and Finance and the State General Accountant. The new State General Accountant, Daniele Franco, comes from the Bank of Italy: it seems that the last reserve of Italian elite has come again to the rescue of politics and of the bureaucracy from the problems of their own making. This could cause concerns for an excessive influence of the Bank of Italy on the Italian government; what is more, the effectiveness of this appointment is still to be proved, also considering that Letta is hardly going to serve for a full mandate. However, something akin to change has come to Italy.