

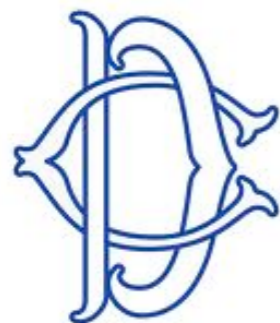
# the Italian political puzzle

20 years after the Maastricht treaty  
25 years after the end of the Cold War  
35 years after the European Monetary System  
70 years after World War Two

- ▶ Revolutions require either blood or time. I prefer time. (Romano Prodi)
- ▶ A carriage going uphill too slowly eventually recedes. (Andrei Sakharov 1921-1989)
- ▶ Until Greece and Spain exist, we will never be the last ones. (Gioachino Rossini 1792-1868)

## Giovanni B. Bachelet

Oxford, February 14, 2014  
Cambridge, February 15, 2014



Camera  
dei  
Deputati



SAPIENZA  
UNIVERSITÀ DI ROMA

# the European Dream and the 1993 Maastricht criteria

The Maastricht criteria (also known as convergence criteria) are the criteria for European Union member states to enter the third stage of European Economic and Monetary Union (EMU) and adopt the euro as their currency. They impose control over inflation, public debt and the public deficit, exchange rate stability and the convergence of interest rates. The purpose of setting the criteria is to maintain the price stability within the Eurozone even with the inclusion of new member states. **The underlying dream was that the common currency would drive and accelerate further steps in the federation process and push less organized countries to converge faster towards European standards so that when today's students and postdocs are our age, Europe has already become very much like a big Switzerland...**

## 1. Inflation rates

No more than 1.5 percentage points higher than the average of the three best performing (lowest inflation) member states of the EU.

## 2. Government finance

**2.a. Annual government deficit** – The ratio of the annual government deficit to gross domestic product (GDP) must not exceed 3% at the end of the preceding fiscal year. If not, it is at least required to reach a level close to 3%. Only exceptional and temporary excesses would be granted for exceptional cases.

**2.b. Government debt** – The ratio of gross government debt to GDP must not exceed 60% at the end of the preceding fiscal year. Even if the target cannot be achieved due to the specific conditions, the ratio must have sufficiently diminished and must be approaching the reference value at a satisfactory pace. As of the end of 2010, only six EU member states, [Bulgaria, Estonia, Poland, Luxembourg, Finland and the Czech Republic], still meet this target.

## 3. Exchange rate

Applicant countries should have joined the exchange-rate mechanism under the European Monetary System for two consecutive years and should not have devalued its currency during this period.

## 4. Long-term interest rates

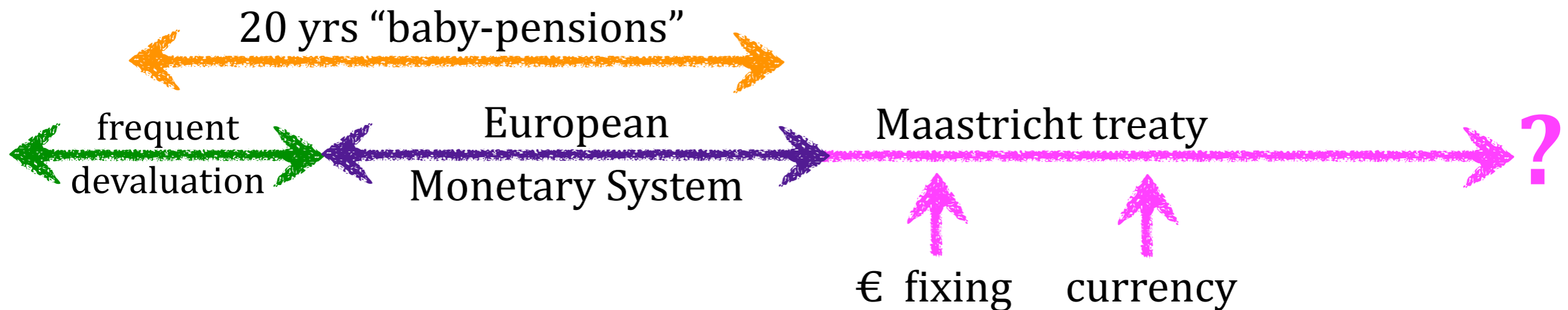
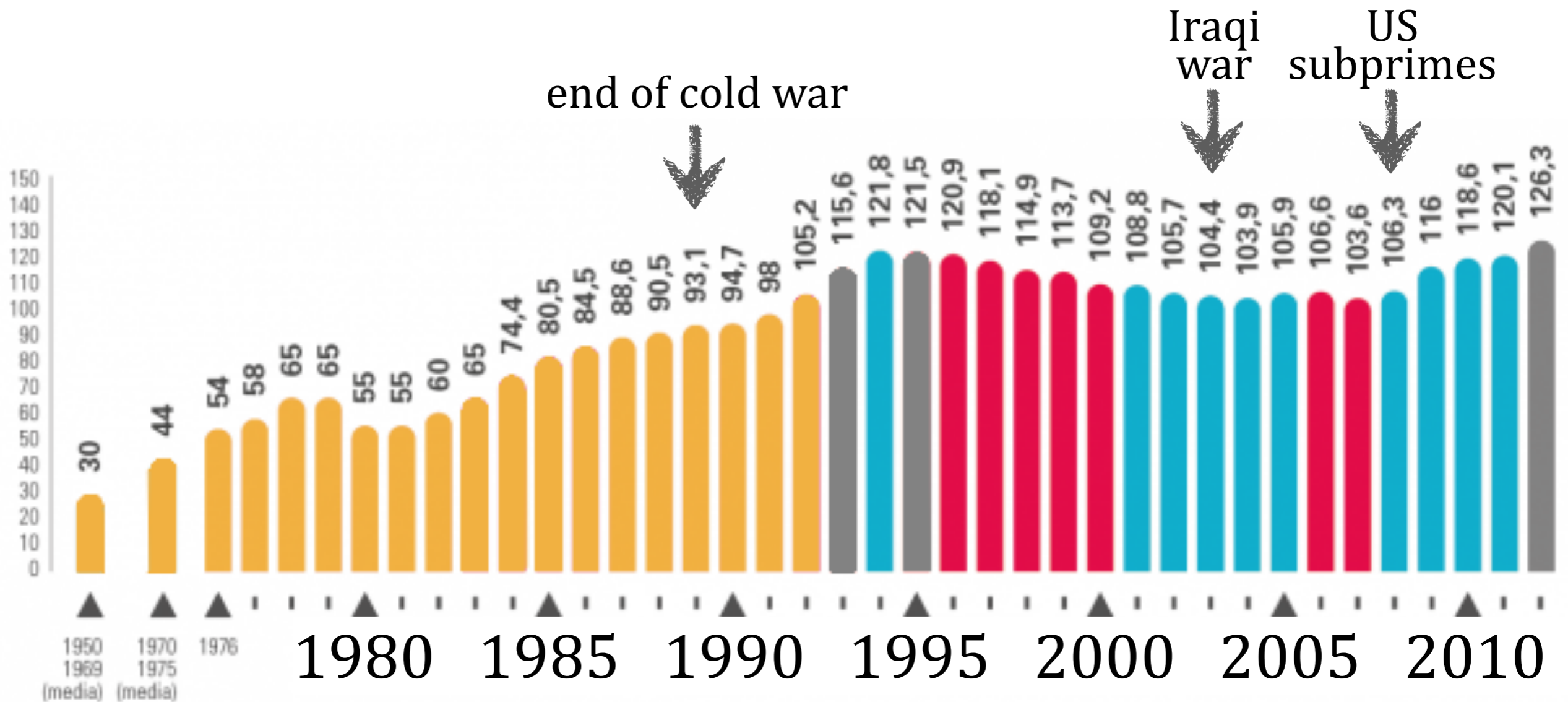
The nominal long-term interest rate must not be more than 2 percentage points higher than in the three lowest inflation member states.

# the government debt over the last ~60 years

1. Public spending may be very roughly split into "minimum state" (police, judges, army) and "welfare" (health, school). [NB The pension system is ambiguous: under equilibrium conditions, if well designed, it could require minor public spending (most of it being balanced by contributions); but in many countries it went out of equilibrium for reasons including ill design, demographic changes, bad political decisions; thus becoming, in practice, an additional, often relevant portion of the welfare public spending.]
2. In more or less all developed countries the "minimum state" has remained approximately constant after WW2, while "welfare" enormously grew, and public spending grew with it.
3. The **government debt** (or public debt), which manifests itself as the bonds issued by the Treasury, is formed when the government spending is greater than its revenue - the budget deficit. This difference, **if not financed by the issuance of currency**, is covered by the issuance of **bonds**.
4. Those countries whose tax increase was not too far from the growth of spending have today limited debts. Others have spent quickly while taxes grew slowly, whence the large deficit, which over the years produces a large debt, exponentially boosted by the interests to be paid on previously issued bonds.
5. The relevant Maastricht parameter is the ratio of gross government debt to gross domestic product; in times of economic crisis the GDP decreases and the parameter can go wild even with an acceptable debt.
6. **Italy** presently spends more than other countries, but not much more. In some key services, like school, it by now spends less than most European countries. Since 1990 the primary budget (collected taxes minus current expenses before paying interests on state bonds) has been, depending on governments, either healthy or not too unhealthy, i.e., either a small surplus or a small deficit. Our gigantic debt mainly comes from the past: for too many years we collected significantly less taxes than the money we spent. Over the same period of time our economic growth was less and less robust, and over the last years it was negative (recession), which impacts on budget equilibrium (taxes grow as the GDP grows) and on the Maastricht parameter (where the GDP is at the denominator).

# Italy's debt, from baby pensions to the Euro

(shown: ratio of gross government debt to gross domestic product)



# Voting systems in Italy-1

## Proportional system (1946-1993):

- ▶ emphasis on exact representation, ideology, sense of belonging
- ▶ a party receiving 15% of the votes gets 15% of the seats for its candidates)
- ▶ ground-state voters select their representatives by “preference”
- ▶ at least 3 decades of economic development after the war

## When, why and how it was abandoned

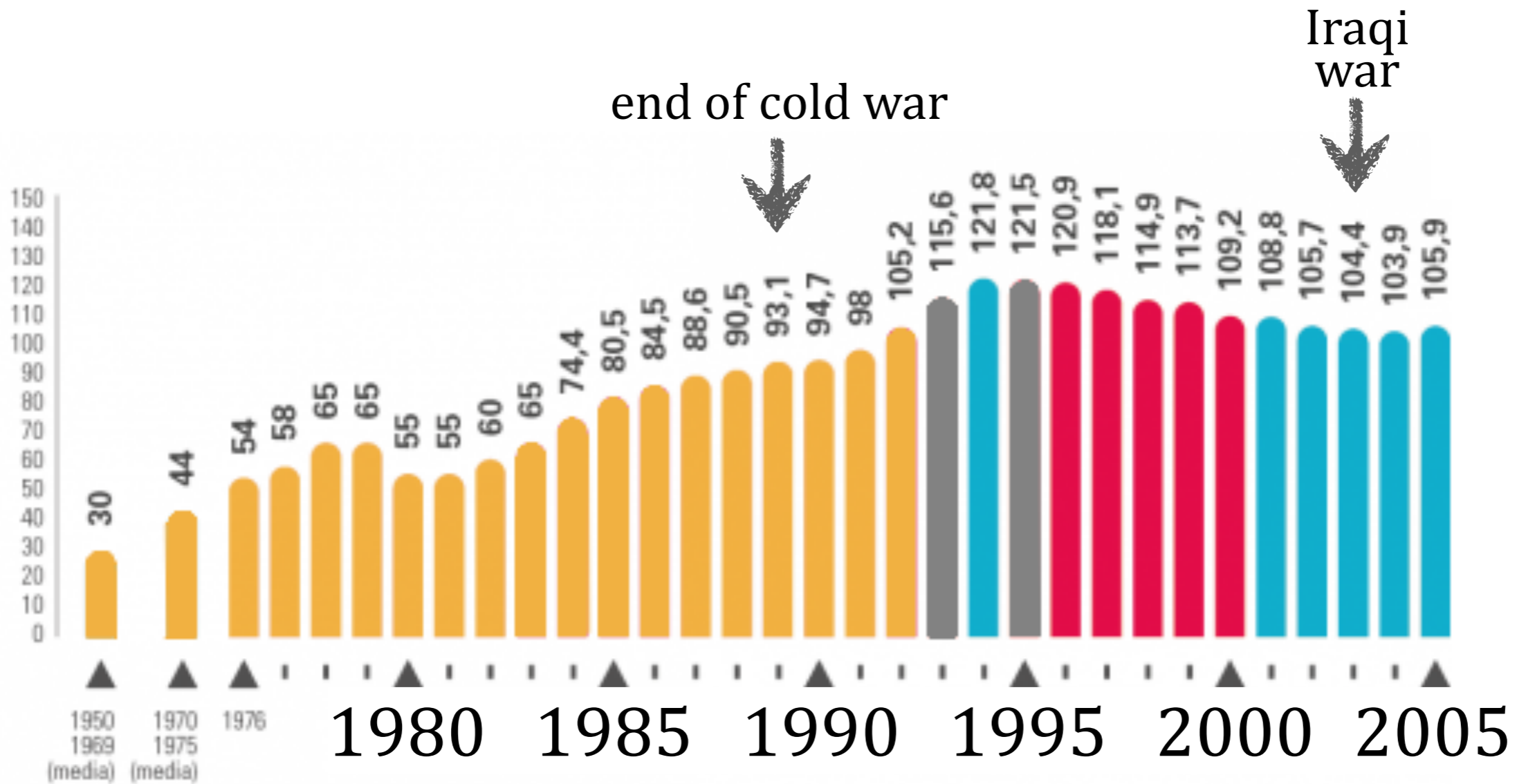
- ▶ coalition power: after all, not proportional to the number of voters
- ▶ unstable governments, “heavy” political parties → deficit spending
- ▶ high campaign costs because of **large districts** → corruption
- ▶ 2 referenda 1991, 1993: peculiar years, indeed

## Single-member district (1994-2005):

- ▶ emphasis on programs, candidates, government; “light” political parties
- ▶ each candidate individually bound to a local community (**small districts**)
- ▶ simple plurality voting system, first-past-the-post or winner-takes-all
- ▶ actual correction: 1/4 proportional recovery with party vote (bad idea)

# Italy's debt and its voting law

(shown: ratio of gross government debt to gross domestic product)



proportional  
representation

single-member  
district

# Conceivable improvements

## **In our single-member-district voting law:**

- ▶ shift the 1/4 proportional recovery from party vote to “best losers”
  - ♣ the validity threshold was missed by such a referendum by a few thousands votes
- ▶ primary elections by law, or
- ▶ two-round single-member constituency

## **In our Constitution:**

- ▶ avoid duplication of work and loss of time with two identical legislative bodies
  - > transform our Senate in something like the German Bundesrat
- ▶ strengthen the Prime Minister’s role, with appropriate counterbalances
- ▶ prohibit conflicts of interest (no more political power + media ownership)

# Instead, in 2005, Berlusconi and his allies approve

## **A crazy new Constitution**

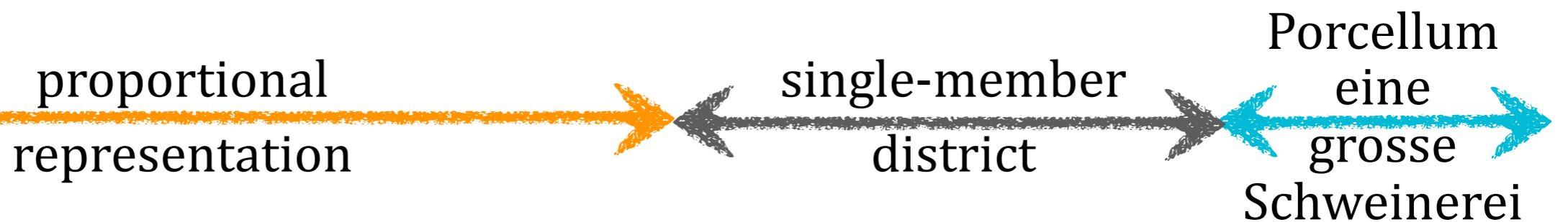
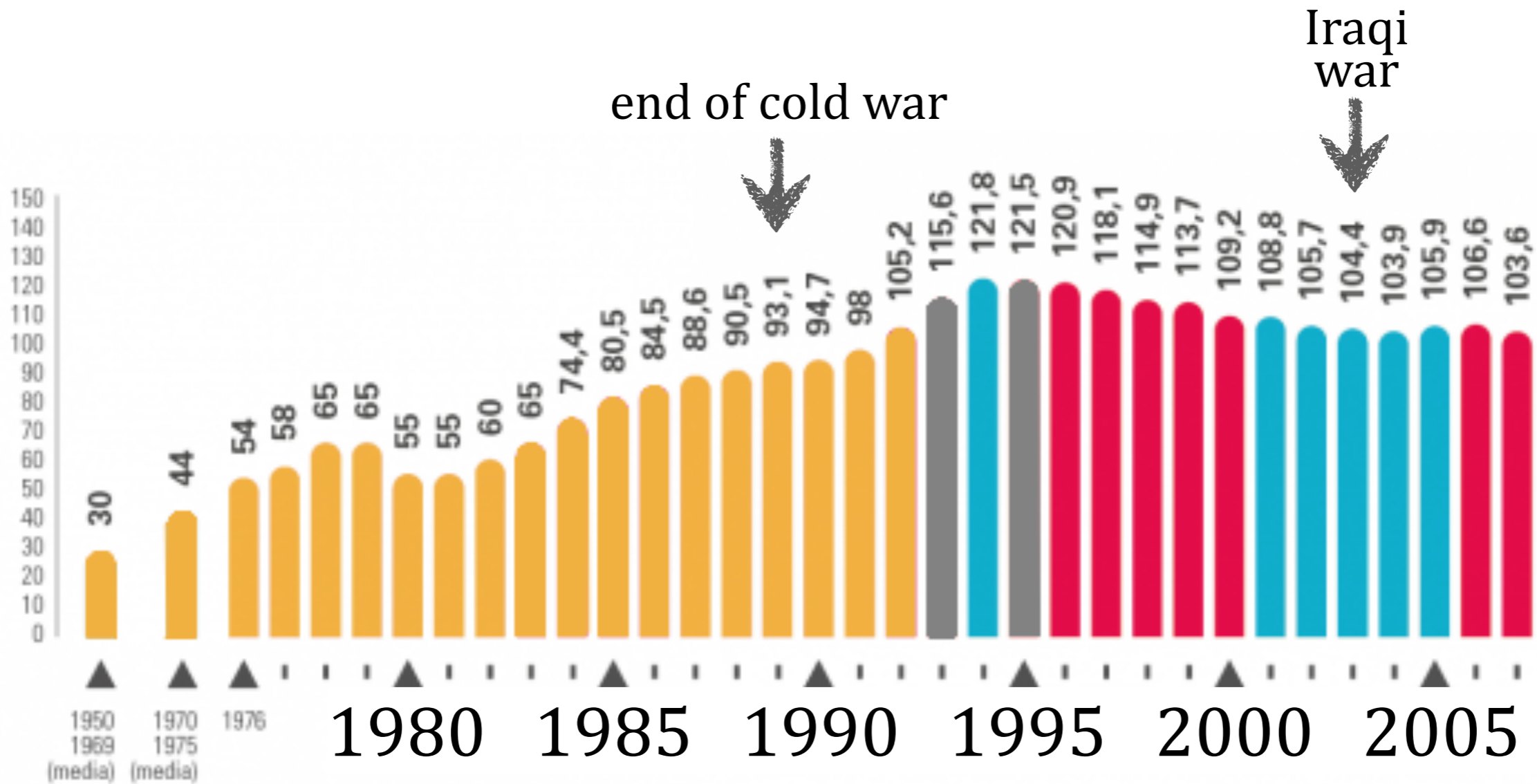
- ▶ rejected by a vast majority of voters by referendum in 2006

## **A crazy voting law (named “Porcellum” by the very politician who wrote it)**

- ▶ no equivalent in the world
- ▶ strong distortion of the proportional representation
- ▶ no guarantee of a stable government
- ▶ party leaders rather than citizens decide which candidates may run for election
- ▶ short term: it reduces the expected loss of his coalition in the 2006 general elections
- ▶ so Romano Prodi’s second government is unstable, it lasts only two years...
- ▶ ...and it collapses just before the Parliament starts to change such a BAD voting law
- ▶ the referendum against this law (1.5 million signatures) is denied by the Supreme Court

# Italy's debt and its voting law

(shown: ratio of gross government debt to gross domestic product)



# Porcellum mid-term effects -1

## **2008 general elections, Berlusconi wins again**

- ▶ resurrection of a multi-polar Parliament
- ▶ government debt rises
- ▶ gross national product drops (also due to global subprime crisis)
- ▶ financial catastrophe approaches (“spread”)

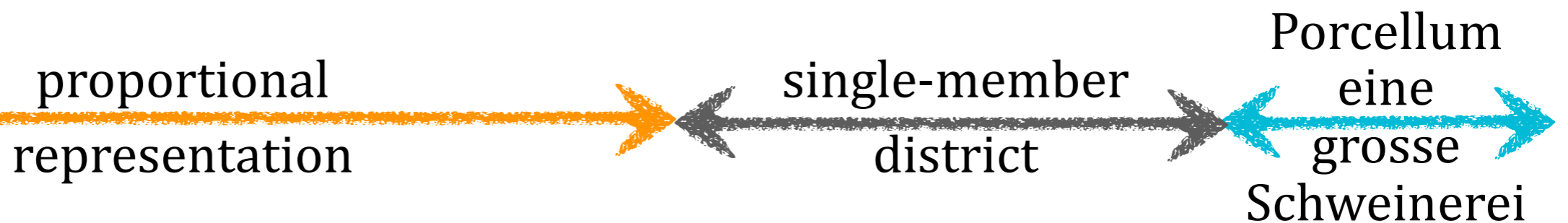
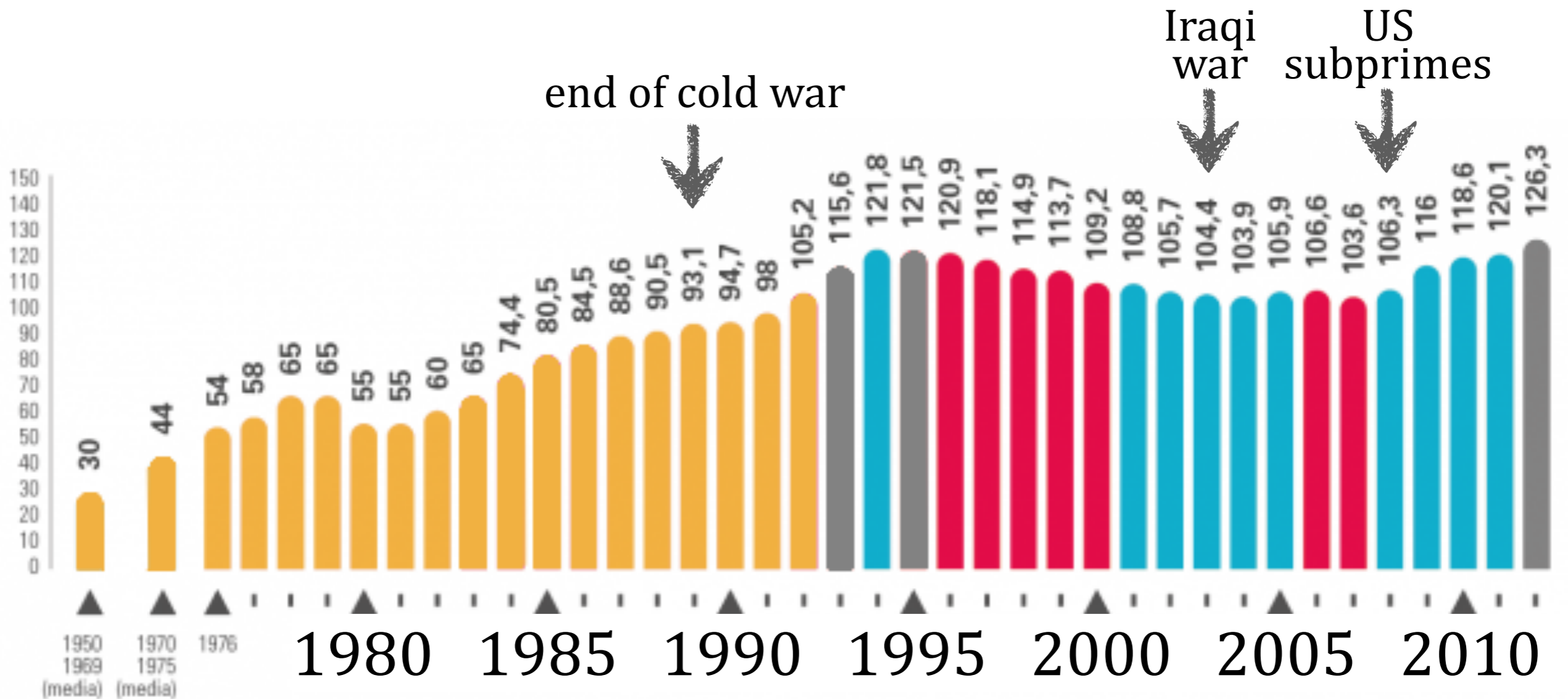
## **Extraordinary (not necessarily healthy) role of the President of the Republic**

- ▶ bi-partisan Monti government at the end of 2011
- ▶ the “spread” improves
- ▶ no improvement in economic fundamentals (GNP drops, unemployment rises)

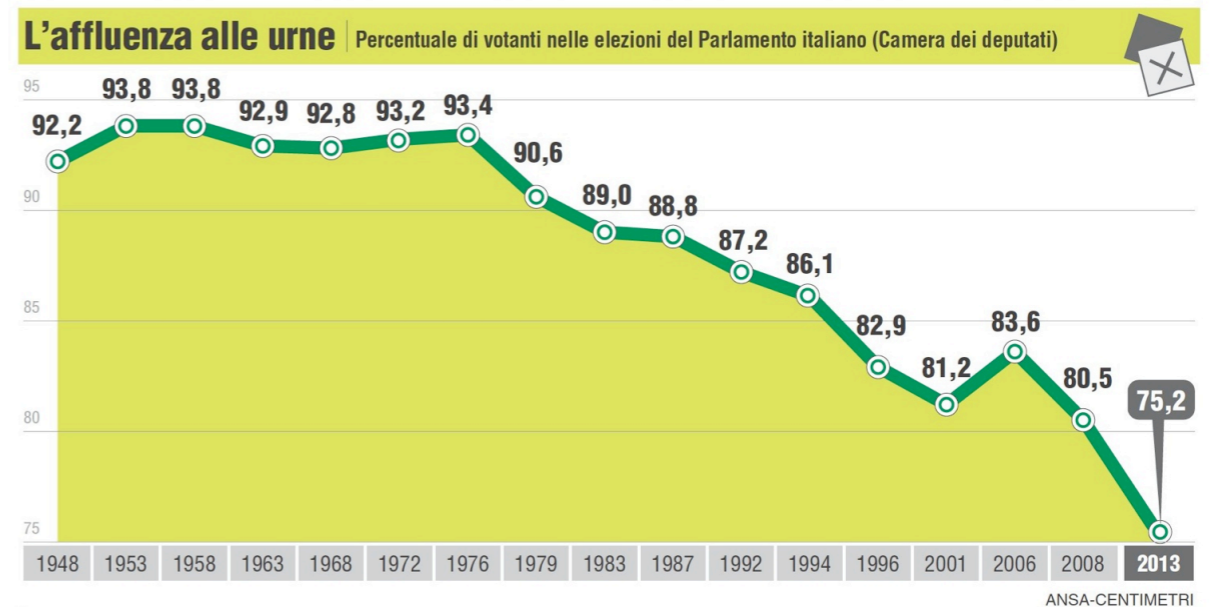
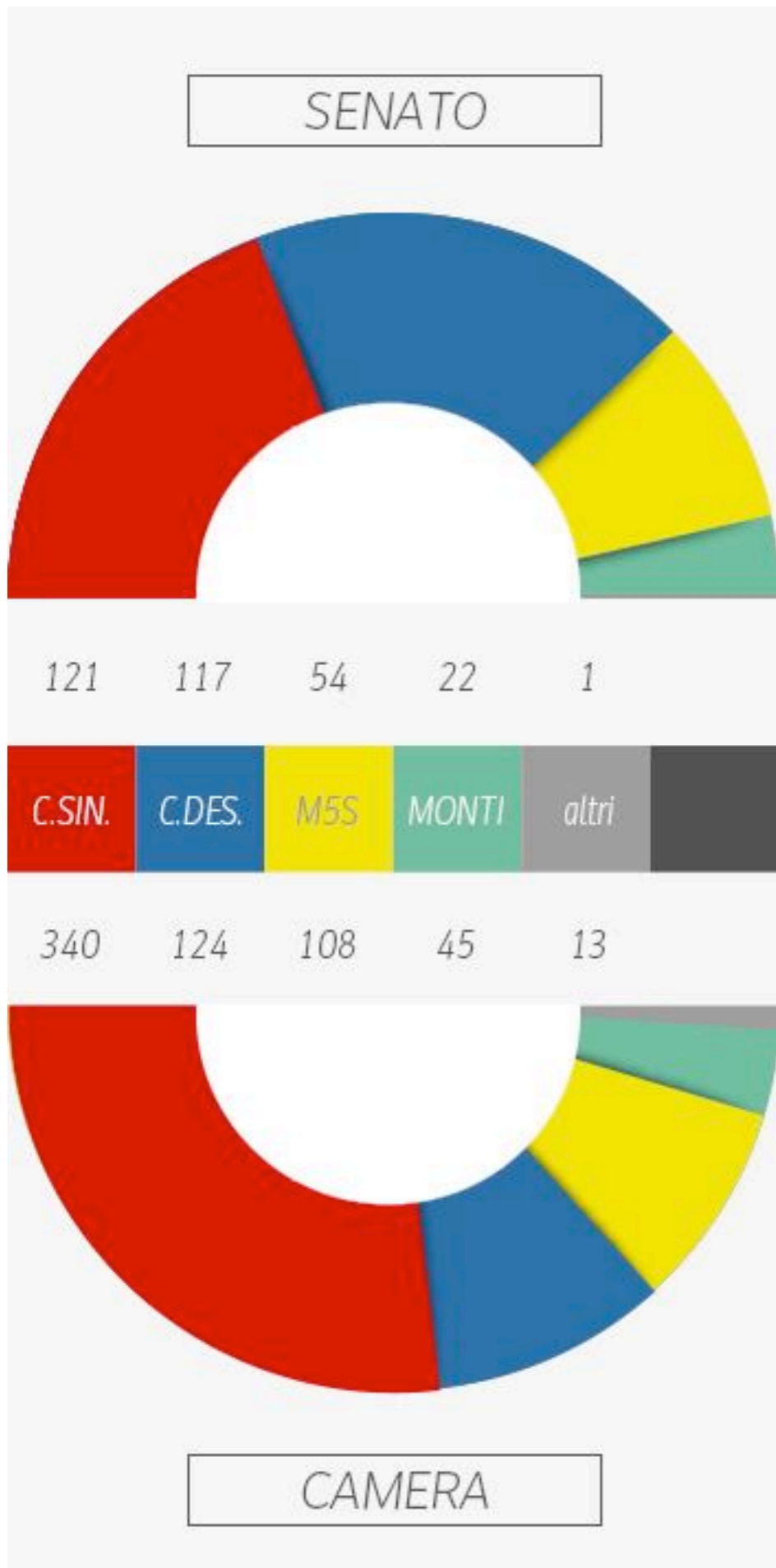
## **2013 general elections: judge for yourself**

# Italy's debt and its voting law

(shown: ratio of gross government debt to gross domestic product)



# results, february 2013



# Porcellum mid-term effects -2

## April 2013

- ▶ Napolitano is re-elected (at age 88) President of the Italian Republic
- ▶ new bi-partisan government, Prime Minister is Enrico Letta (PD)
- ▶ “spread” better and better
- ▶ still no improvement in economic fundamentals

## December 2013

- ▶ the Supreme Court, by abrogating a good portion of Porcellum (why so late?), essentially re-writes a fully proportional voting law, which will automatically come into effect unless the Parliament writes a new one
- ▶ Matteo Renzi is elected leader of PD; he declares his priorities to be:
  - ♣ a new voting law and some constitutional amendments
  - ♣ a new law on civil rights (immigrants, new families)
  - ♣ a new impulse to Enrico Letta’s government

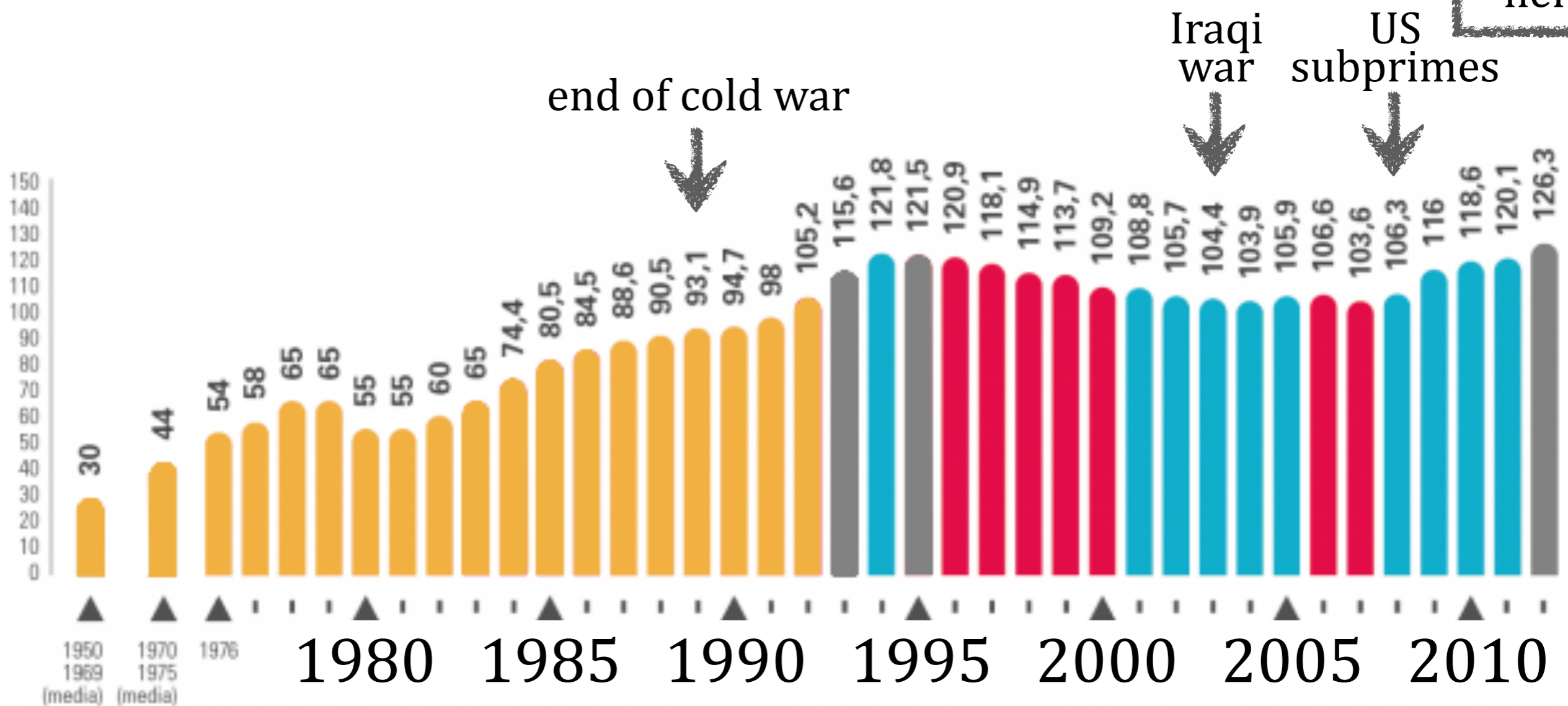
## February 2014 (right now)

- ▶ woow, what an impulse!  
Letta resigns, Napolitano asks Renzi to form a new government
- ▶ same Parliament as a year ago
- ▶ will Renzi give to Italy a good voting law, a good law on civil rights and a stable and efficient government which may revert the bad economic trend, or will we just definitively slide back to the pre-1993 situation (and thus out of Europe)?
- ▶ i.e, an Italian De Gaulle or just another one-year center-left Prime Minister?

# Italy's debt and its governments

(shown: ratio of gross government debt to gross domestic product)

we are here



Hopes & efforts: for nothing?

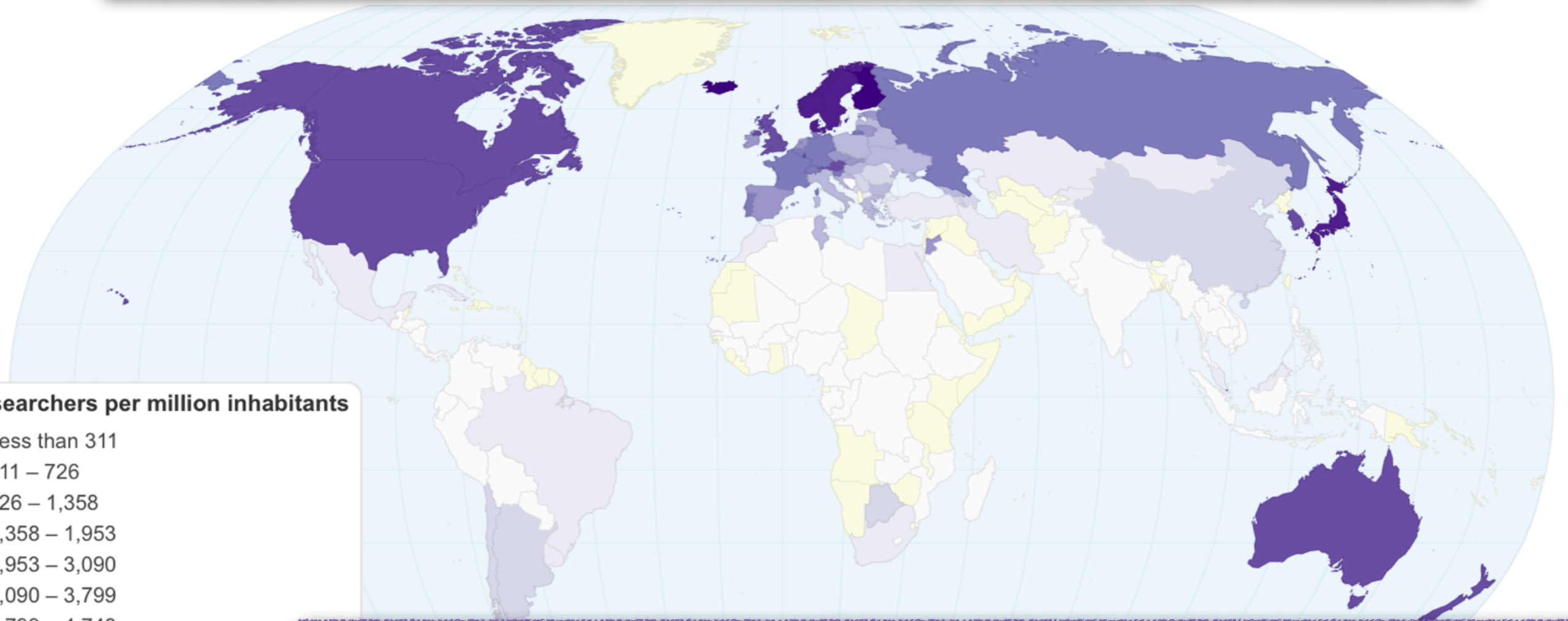
| I GOVERNI<br>Gli esecutivi che hanno retto il Paese |           | FORLANI   | CRAXI                            | DE MITA  | CIAMPI                            | PRODI   | BERLUSCONI   | MONTI                              |
|---|-----------|---|----------------------------------|--|-----------------------------------|---|--|------------------------------------|
| III-IV-V governo<br>29 luglio 1976<br>4 agosto 1979 | ANDREOTTI | 18 ottobre 1980<br>28 giugno 1981                   | 4 agosto 1983<br>17 aprile 1987  | VI governo<br>13 aprile 1988<br>22 luglio 1989     | 28 aprile 1993<br>10 maggio 1994  | 17 maggio 1996<br>21 ottobre 1998                 | II-III governo<br>11 giugno 2001<br>17 maggio 2006 | 16 novembre 2011<br>28 aprile 2013 |
| I-II governo<br>29 luglio 1976<br>4 agosto 1979     | ANDREOTTI | III-IV governo<br>29 luglio 1976<br>4 agosto 1979   | FANFANI                          | VI-VII governo<br>22 luglio 1989<br>28 giugno 1992 | BERLUSCONI                        | D'ALEMA   | PRODI  | LETTA                              |
| I-II governo<br>4 agosto 1979<br>18 ottobre 1979    | ANDREOTTI | I-II governo<br>28 ottobre 1981<br>1° dicembre 1982 | FANFANI                          | VI governo<br>17 aprile 1987<br>28 luglio 1987     | 10 maggio 1994<br>17 gennaio 1995 | I-II governo<br>21 ottobre 1998<br>25 aprile 2000 | II governo<br>17 maggio 2006<br>8 maggio 2008      | 28 aprile 2013<br>ad oggi          |
| I-II governo<br>4 agosto 1979<br>18 ottobre 1979    | ANDREOTTI | V governo<br>1° dicembre 1982<br>4 agosto 1983      | GORIA                            | I governo<br>28 giugno 1992<br>28 aprile 1993      | DINI                              | AMATO   | BERLUSCONI   | RENZI                              |
|   |           |   | 28 luglio 1987<br>13 aprile 1988 |  | 17 gennaio 1995<br>17 maggio 1996 | II governo<br>25 aprile 2000<br>11 giugno 2001    | IV governo<br>8 maggio 2008<br>16 novembre 2011    | 16 febbraio 2014<br>...???         |



# Italian problems within general EU trends

- ▶ UK remains outside the Euro Zone
- ▶ Iraqi war
- ▶ EU Constitutional treaty fails
- ▶ EU gets larger but not stronger
- ▶ common economic, defense and foreign policy yet (?) to come
- ▶ US subprime crisis
- ▶ is 3-polarization a continental trend?
  - ❖ Switzerland 2014: referendum on immigrants
  - ❖ France 2014: Marine Le Pen credited with 30% consensus
  - ❖ ...
- ▶ Germany 2014: no longer shy about defense (how nice :)
- ▶ mediterranean EU countries (PIGS?) are in great trouble, mortal dilemma:
  - ❖ exiting the Euro Zone implies bankruptcy
  - ❖ remaining inside implies trying to pay back in ~5 years debts which were accumulated over ~35 years; this, in turn, implies industrial, commercial, and welfare desertification (for academic desertification see e.g. next slide)

## Number of Researchers per million inhabitants by Country



### Researchers per million inhabitants

- Less than 311
- 311 – 726
- 726 – 1,358
- 1,358 – 1,953
- 1,953 – 3,090
- 3,090 – 3,799
- 3,799 – 4,748
- 4,748 – 6,088
- 6,088 – 7,707
- No data

\* FTE = full-time equivalents  
\* HC = headcounts

**“Until Greece and Spain exist, we will never be the last ones”  
(Gioachino Rossini 1792-1868): no longer true**

source data from UNESCO Institute for Statistics, 7th March, 2011, see [http://www.uis.unesco.org/ev.php?URL\\_ID=3755&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=201](http://www.uis.unesco.org/ev.php?URL_ID=3755&URL_DO=DO_TOPIC&URL_SECTION=201)  
this map (clickable version, with many numbers), see [http://chartsbin.com/view/1124?fb\\_action\\_ids=10151905208619342&](http://chartsbin.com/view/1124?fb_action_ids=10151905208619342&)

# from EU nightmare back to the EU dream?

- ▶ I presented some Italian peculiarities (see Rossini); however, the financial crisis imported from the US threw many other EU states into a similar economic crisis and associated political despair
- ▶ Italian voting laws and bad habits didn't help, but the insufficient success of the strongly pro-Europe Democratic coalition in the 2013 Italian elections also reflects the loss of hope of many people who, this time, did not vote at all or wasted their vote into useless protest
- ▶ Italy and others are painfully complying with EU prescriptions, but this seems to cause further recession, which in turn worsens rather than improving already critical national budgets
- ▶ enormous risks undergone by stronger EU partners too, if the euro carriage inverts its motion and falls back breaking into pieces
- ▶ further momentum needed to overcome the hill (see Sakharov): how to regain it? is the election of the next European Parliament enough? hmm...
- ▶ will the "Erasmus generation" understand the danger and fight back? are young Ukrainians the only ones ready to die for the EU? is a huge Switzerland a sustainable dream? die Zustimmung, die Zustimmung...