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## **Italy: Lost in stagnation**

*di Guy Dinmore*

The ruined city of L'Aquila epitomises the despair of a nation paralysed by political and economic torpor.

Silence hangs over the ruins of L'Aquila when 83-year-old Aldo Di Bitonto returns to inspect his shattered home. It is the fourth anniversary of the earthquake that devastated the city and he does not know when or even if he will cross the threshold of his home again.

Reconstruction has all but ground to a halt, through lack of money and paralysing politics that have made medieval L'Aquila the ultimate symbol of Italy's great stagnation.

"We are in the hands of incompetent, arrogant and conceited politicians who count for nothing. The right speaks badly of the left, the left of the right and we the people are caught in the middle like pressed fish," laments Mr Di Bitonto, captain of the city's football team half a century ago, strolling through the deserted "red zone" of the historic centre. Steel girders prop up teetering buildings and churches, and some streets are still entirely closed off.

Candles and fresh flowers mark the places where 309 people were killed as they slept in L'Aquila and nearby villages in the early hours of April 6, 2009. Some 22,000 left homeless are still in "temporary" accommodation.

Massimo Cialente, L'Aquila's despairing mayor, is threatening to haul down the national flag from the city hall and dismiss the prefect representing the central government. "You can let us die in peace," he says. "This city has been condemned to death without resources."

Despite an outpouring of grief and hand-wringing pledges by national leaders, L'Aquila has become a monument to Italy's economic and political paralysis. Small construction companies won tenders to rebuild, started work and then went bankrupt when the state failed to pay them – a pattern that is repeated across the country where the public administration owes €100bn in arrears to the private sector.

But, like the rest of Italy, L'Aquila is rich in suffocating bureaucratic impositions. Gian Antonio Stella, a reporter known for exposing the waste and corruption of the elite known as the "caste", counts 1,109 laws, directives and ordinances passed to deal with the city's revival. Some aim to prevent the Mafia – one branch of the Italian economy that is flourishing amid crisis – from taking the spoils of reconstruction.

Families are still lodged in a police barracks outside the city that were used to host the 2009 G8 summit after Silvio Berlusconi, then prime minister, shifted the venue to L'Aquila, ostensibly to

draw attention to its plight. The summit budget, Mr Stella notes, included €26,000 for 60 limited edition pens and €2,500 for 45 silver Bulgari ashtrays.

Beyond L'Aquila, Italy's crisis is deepening as the economy enters its eighth consecutive quarter of contraction, the longest recession since the war. In the decade to the end of 2012, the eurozone's third-largest economy recorded 15 quarters of decline.

An array of statistics attest to Italy's slide during that period. In education, Italy has slipped down the table so that only Greece spends less. Prisoners do even worse than students, with 140 crammed into communal cells built for 100, the most overcrowded in Europe. Packed even more solidly are commuters on trains, among the slowest on the continent. Opening a business? According to the World Bank, it costs far more to start a business in Italy than in France, Germany or the UK.

What meagre growth has been eked out over the past decade – dominated by Mr Berlusconi's two centre-right governments – has been largely driven by an influx of immigrants compensating for Italy's own declining population. But even they are starting to leave, joining an exodus of tens of thousands of young Italians, many of whom now serve in the bars, banks and businesses of London. The Goethe Institute is overbooked with would-be students of German heading for Berlin.

These days, the front pages of *Il Sole 24 Ore*, Italy's main business daily, are a tombstone to failure. Last Wednesday it recorded that 4,218 companies had gone bankrupt in the first three months of the year, up 13 per cent from the first quarter of 2012. Families, too, are being impoverished, their purchasing power falling nearly 5 per cent last year, returning to levels last seen in the 1990s.

The sense of entrenched stagnation is mirrored in political paralysis. Eight weeks after elections resulted in a divided parliament, Italy is still waiting for a new government as politicians bicker over who should run it.

"We cannot waste time any more. Time is over," declared Giorgio Squinzi, head of the Confindustria business lobby, warning that failure to agree on a government and going back to the polls within months could condemn Italy to missing out on the economic recovery projected for the rest of Europe.

Gian Maria Fara, sociologist and president of the Eurispes think-tank, dates the start of Italy's long stagnation to the fall of what is known as the "first republic" in 1992, when the postwar establishment collapsed under the twin pressures of corruption scandals and the end of the cold war that spelt the demise of western Europe's largest communist party.

"The political leadership was exhausted. The country was suffering. We dismantled a system that we thought we could rebuild in a few years but it took much longer," says Mr Fara.

“This is not a political crisis in essence. It is a crisis of the country’s political and business and academic leadership in general, of which the politicians are an expression.”

Dominated by a handful of big corporations with their own “protectionist” instincts at heart and by politicians who use their parties as vehicles for their own careers, Mr Fara says Italy is left without a project or a vision and the “logic of small towns, where everyone just thinks about their own garden”. “We are a country destined for stalemate. We are a Gulliver, a big body tied down by thousands of ropes held by the Lilliputians. A huge bureaucracy is holding us down,” he says.

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The stunning success of the anti-establishment Five Star Movement in the February elections, coming from nowhere to capture a quarter of the vote and become the third-largest force in parliament, is a reaction to what Mr Fara calls Italy’s “sickness”. But under the idiosyncratic leadership of Beppe Grillo, a former stand-up comic and the country’s most popular blogger, the movement appears to be losing its way, unable to hew a clear identity out of its heterogeneous mix of idealists, rightwing extremists and leftwing activists.

Investors hope that the Five Star Movement will inject a sense of urgency into the mainstream parties to implement political and economic reforms, as well as jolt Europe into loosening the grip of austerity that Mario Monti, the caretaker prime minister, admits has plunged Italy deeper into recession.

But neither Italy’s political elite nor Brussels’ show much sign of responding. However, the fear of markets – that Mr Grillo will win a rerun of elections and embark on a programme of reneging on Italy’s debt and holding a referendum on leaving the euro – also appears unlikely to materialise.

What the elections did demonstrate, however, is that Italy’s move towards a bipolar party system has failed and that an anxious and mobile electorate is looking for change. Perhaps Matteo Renzi, the youthful and reformist rising star of the centre left, can harness that restless energy, or the 76-year-old Mr Berlusconi, a billionaire media mogul, will finally find an heir for the centre-right. But for the moment fresh elections – early July or October are the dates most mentioned – could lead to a similar stalemate.

Looking at the bald numbers and grim political outlook, economists are increasingly doubtful that Italy will succeed – without a bailout or restructuring – in meeting its payment obligations on €tn of public debt, which Mr Monti’s exhausted technocrat government projects will rise to 130.4 per cent of gross domestic product this year from a record 127 per cent in 2012. Mr Monti, whose newly formed centrist alliance took only 8 per cent in the February polls, told parliament he could not wait to leave office.

“Can Italy survive? Probably not,” says Pepper Culpepper, professor of political science at the European University Institute in Florence. “The state is paralysed and political parties are in free fall. No political system even under international pressure is capable of changing things.”

“It is hard to think of anywhere as uncompetitive as Italy. No one is allowed to compete here. Berlusconi and his friends as well as the unions all fight against reforms, defending entrenched interests,” says David Levine, professor of economics at EUI, suggesting that Italy should restructure its debt sooner rather than later.

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Mr Fara at Eurispes begs to differ, arguing that the official statistics do not tell the whole story.

Italy, he says, survives because it has three GDPs: the “official” GDP of €1.54tn but also the “hidden” GDP of the black economy that adds another 30-35 per cent and then the “criminal” GDP of the various mafia organisations he estimates at more than €200bn.

“There is a lot more wealth than described in statistics. So, despite all the problems, the country goes on. Why have the people not stormed parliament with their pitchforks? Because they have the hidden economy,” he explains. “These two other GDPs are our social shock absorbers of the crisis.”

But the wealth that Italians have accumulated, rather than investing, over generations – which makes them among the richest in Europe in terms of mostly property-based assets – is dwindling. The country is also in the process of what Eurispes calls the big “sell-off”, as its most famous brands and companies, particularly in food and luxury, fall into the hands of foreign buyers.

The list is long, including power company Edison founded in 1884 (French), Roma football club (American), Buitoni pasta (Swiss), Peroni beer (South African), Ducati motorbikes and Lamborghini cars (German), Ferretti luxury yachts (Chinese) and Valentino fashion (Qatari).

Rumblings of discontent, among voters and business leaders, are not new. But now even the military is starting to speak out. Admiral Luigi Binelli Mantelli, chief of the defence forces, last month took the extraordinary step of publicly slamming Mr Monti’s government for sending two Italian marines back to India for trial on charges of killing two Indian fishermen while protecting an Italian tanker on anti-piracy duty. The case, said the admiral, “is looking always more like a farce”. In private, officers said his comments reflected a broader view that the pillars of the state were crumbling.

Not that this means Italy risks a military coup, even if many Italians yearn for the emergence of a strongman to lead the country out of crisis. “Italy is caught in a vicious circle. Political dysfunctionality, a grinding recession, a lack of bank credit and deep social malaise are all feeding off each other,” comments Nicholas Spiro, a sovereign risk analyst who closely follows the country.

“Italy’s political, economic and institutional crisis not only endures, but is going from bad to worse.”

#### Emigration: A Roman regrets his return

Millions of Italians have emigrated in search of a better life since the founding of their modern state in 1861. First they filled transatlantic liners, taking their cheap labour and their cardboard suitcases, but more recently they exported their brainpower carrying laptops.

One Italian who decided to return to Rome after spending years in France is Massimiliano Fuksas, an architect. With his interior-designer wife, Doriana, he has established one of the country’s most successful brands. “It has been a 20-year nightmare,” he says of his time back in Italy.

Mr Fuksas, 69, is still involved in various French projects and, with President François Hollande, has just inaugurated the National Archives he designed in Paris. In July he will see the opening of Shenzhen’s giant airport in southern China, which he designed, and he has won a competition for Moscow’s Polytechnic Museum and Educational Centre.

“France gave me the possibility to do experimental projects, with new materials. I love France,” he says. “France is a country with laws. The government is a state. It takes care of you. At dinner no one speaks of money or politics and never about sex.”

But his best-known project in Italy, a convention centre in Rome known as The Nuvola (Cloud), has been dogged by funding problems and is four years overdue.

The executive in charge has been arrested on corruption charges related to a separate contract.

“In Italy we have a huge bureaucracy but no state, an administration of nothing,” he says. “In Italy you start a project without money. In France politicians say you have to do this and the bureaucracy organises with public and private money and then there is the tender and building. A linear process. But here it is not like this.”

“What is our democracy in Italy, that the richest man wins elections?” asks Mr Fuksas, who does not hide his disdain for Silvio Berlusconi, billionaire leader of the centre-right since 1994. Mr Fuksas threatened to leave Italy again if Mr Berlusconi won the February elections.