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## Original Article

# The political sources of Italy's economic problems: Between opportunistic political leadership and pragmatic, technocratic leadership

Vivien Schmidt<sup>a,\*</sup> and Elisabetta Gualmini<sup>b</sup>

<sup>a</sup>Department of International Relations, Boston University, 154 Bay State Rd, Boston, 02215 MA, USA.

E-mail: vschmidt@bu.edu

<sup>b</sup>Dipartimento di Scienze Politiche e Sociali, Università di Bologna, Strada Maggiore, 45 Bologna, Italy.

E-mail: elisabetta.gualmini@unibo.it

\*Corresponding author.

**Abstract** The economic crisis beginning in 2008 brought into high relief problems in the Italian political economy that had been smoldering for a while. But these were exacerbated by a center-right government under the political leadership of Berlusconi that did little to stem the decline in economic competitiveness, the shrinking of domestic wealth, and the explosion of youth and female unemployment, let alone to confront the crisis head on through effective reform initiatives. When that government collapsed, a new government under the technocratic leadership of Professor Mario Monti came to the rescue. This replicates a pattern seen before, in which long stretches of opportunistic, ideologically divided and ineffective political economic leadership for time are followed by pragmatic technocratic leadership at critical junctures, which manages to overcome political institutional constraints to liberalize and modernize. In order to explain this back and forth pattern, the article combines a discursive institutionalist analysis of Italian political leaders' ideas and discursive interactions with a historical institutionalist analysis of Italy's formal political institutional arrangements. It also sets Italy's political economy in comparative perspective, as a 'state-influenced' market economy in which the state hinders more than it enhances political economic activity, by contrast with France and even Spain.

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The Italian economic model has been in trouble for some time not only because of its economic problems but also because of its political model. Although Italy had been coping with the crisis better than the other Southern European countries during the crises in banking in 2008, in the real economy in 2009, and in the first year and a half of the sovereign debt crisis that followed, by the summer of 2011 it also came under severe attack by the capital markets. This was due as much to political concerns about Prime Minister Silvio Berlusconi's lackluster and increasingly scandal-ridden leadership as it was to economic concerns focused on Italy's debt level, second only to that of Greece, and its general economic decline, linked to its lack of competitiveness and high levels of corruption. Only in November 2011, when a new technocratic government headed by Mario Monti was appointed did the country get some respite from market pressures, if only relatively briefly.

Although it is true that the large Italian firms remain competitive, they are barely so. Italy has consistently had one of the worst scores in Europe for competitiveness: at 50 in 2009 (where 1 is the best), its score was only marginally better than that of Greece, at 52, and Romania, at 54 (IMD World Competitiveness Yearbook, 2009). Moreover, its reputation for corruption has been such that in Pew Survey (2012) on stereotypical perceptions of other European countries during the Eurocrisis Italy was cited as most corrupt by five out of the eight countries surveyed (including by Italy), with the exceptions being Greece, Poland and the Czech Republic (which cited themselves instead). What is more, small and medium enterprises of the 'third Italy' have been threatened not only by the competition that comes from abroad – from the east – but also by barriers to competition coming from within. This includes mostly senseless rules that relegate Italy to an overall ranking of 78 (where 1 is best) on the ease of doing business, far behind other European Union (EU) member states with the exception of Greece, at 110; to a ranking of 136 on tax compliance, ahead only of Romania and Belarus in Europe; and at an even lower ranking of 156 on respect for contracts, which puts it only just above Albania and Pakistan (World Bank-Ease of Doing Business, 2010). A further issue for small- and medium-sized businesses is the lack of assistance in training, research and development, or government grants for the facilitation of business, which exist in the Nordic countries and Germany. Other issues include relatively poor industrial relations and overly expensive yet inequitable pensions systems that lead to business reluctance to hire.

Most of these problems suggest that Italy's economic difficulties have their roots on the political side of the political economy, in particular in the failures of the state and its political leadership. To elucidate this argument, it is useful to compare Italy with the two other countries that are closest to it in variety of capitalism, France and Spain.

Of the varieties of capitalism typically described for Europe, Italy fits best into the category defined as 'state-influenced market economies' (SMEs) that



also includes France, Spain, Portugal and Greece (see Schmidt, 2002, 2009, 2012), by contrast with the 'liberal market economies' (LMEs) of Anglophone countries, the coordinated market economies (CMEs) of Nordic and Continental countries (Hall and Soskice, 2001) and the dependent market economies (DMEs) of Eastern Europe (Nölke and Vliegthart, 2009). SMEs are distinctive both for the more significant role of the state in organizing the economic activities of business and labor and for its effects on their logic of interaction. Unlike the 'arbitrator' state in market-driven LME's, the 'enabling' state in non-market coordinated CMEs (Hall and Soskice, 2001), or even the 'dependent' state in foreign capital-driven DMEs (Nölke and Vliegthart, 2009), the 'influencing' state in SMEs exercises leadership in the economy where it sees the need to intervene in business or labor relations but otherwise may leave business significant autonomy. This makes for a hierarchical logic of interaction for state, business and labor relations rather than the joint decision between employers, unions and the state championed by CMEs, the unilateral action of autonomous companies in LMEs, or the unilateral action of foreign capital in DMEs (Schmidt, 2009).

In France, the ideal-typical SME, the state's actions have largely enhanced the national political economy as it moved from 'state capitalism' in the post-war period to 'state-enhanced capitalism' (Schmidt, 2002), or from *dirigisme* (interventionism) to post-*dirigisme* (Levy, 1999). In Spain, a similarly enhancing effect of the state could be charted since the end of the Franco regime – leaving aside the devastation of the crisis brought about by the speculative housing bubble – making for a 'mixed market economy influenced by the state' (Royo, 2008). By contrast, in Italy's SME, the state's presence has largely been hindering with the exception of short periods in the mid-1990s and today, which is why Schmidt (2002) has called it 'state capitalism' that is 'state-led by misdirection', why Della Sala (2004) has named it 'dysfunctional state capitalism' and why Barca (2010) has more neutrally called its model 'public neo-capitalism'.

Significantly, Italy's trajectory since the postwar years has taken it back and forth between opportunistic, ideologically divided political leadership acting mostly as a hindrance to national economic development for long stretches of time, and pragmatic technocratic leadership for short moments at critical junctures, which overcame both political and institutional constraints to liberalize and modernize. By contrast, France began with ideologically united (*dirigiste*) technocratic leadership in the postwar years that successfully promoted growth via an interventionist state and then moved to pragmatic political leadership since the 1980s that liberalized as it modernized (Gualmini and Schmidt, 2013). In further contrast, Spain began with ideologically united (fascist) political leadership in the postwar years that was much more of a hindrance to development than in Italy but then switched to pragmatic political



leadership since the mid-1980s that liberalized and modernized (Schmidt, 2012). To demonstrate this argument, the chapter combines a discursive institutionalist analysis of Italian political leaders' ideas and discursive interactions with a historical institutionalist analysis of Italy's formal institutional arrangements and policies.

For the discursive institutionalist approach, which highlights the importance of ideas and discursive interactions in institutional context (Schmidt, 2002, 2006, 2008; see also Campbell and Pedersen, 2001; Hay, 2006), we focus not only on the ideational legacies that define the ways in which actors conceptualized and remade markets (Clift, 2009) within the context of national and state traditions of economic thought and practice (O'Sullivan, 2007), but also how political elites coordinated the construction of policies and then legitimized them politically (or not) to national publics with communicative discourses within their particular institutional contexts. As for leadership, we identify different kinds of ideational entrepreneurs – ideological, when they hold dogmatically to a particular set of ideas; opportunistic, when gaining and wielding political power or retaining their position takes precedence over any ideas; or pragmatic, when willing and able to adapt their ideas to changing political and economic circumstances (Schmidt and Thatcher, 2013). In addition, such entrepreneurs may consist of political elites whose power and authority stem from their representative legitimacy, or technocratic elites whose power derives from its express delegation by political 'principals' and whose authority results from their expertise (Gualmini and Schmidt, 2013).

For the historical institutional approach, the article puts such leaders into formal institutional contexts by exploring the institutional constraints and obstacles to leadership, as well as the ways in which some reforms may be 'layered' onto existing policies, whereas others may 'convert' existing policies or even subject them to 'drift' (Streeck and Thelen, 2005). In addition to the policies, however, we also consider the importance of political institutions. As a 'compound' polity in which governing activity tends to be dispersed through multiple authorities due to a unitary state with extensive regionalization, corporatist if not clientelist relations, and proportional representation system, Italy better resembles a less functional, less federalized Spain than a centralized France, with its 'simple' polity in which governing activity tends to be channeled through the executive via a centralized unitary state, statist policymaking and majoritarian representation. Such historical political institutional analysis is also useful as background for discursive institutionalist analysis, as the very structure of the political institutions have an effect on discursive practice. In a compound polity like Italy, the coordinative discourse tends to be more elaborate than the communicative, given the number of actors who need to reach agreement on policies and the difficulty thereby to be heard



in the cacophony of voices among actors involved in crafting policies, especially where they fail to agree and go to the streets in protest. In a simple polity like France, the communicative discourse tends to be more elaborate, given the need to legitimate to the general public policies decided by a restricted set of policy actors, although here too cacophony can result where actors not privy to the coordinative discourse protest in the streets (Schmidt, 2006).

This article will show that Italy's economic problems are not only linked to its political economic institutions (variety of capitalism) but also to its compound political institutions, bad policies and failed politics – not only in terms of interests (that is, relationships with business, unions and political parties) but also in terms of innovative ideas and discourses of policy construction and legitimization. We begin by examining the development trajectory of Italy, then look at the economic impact of the crisis in Italy, and end with a discussion of the policies and politics of Italy to counter the crisis. Throughout, the article uses references to France and Spain, where useful, to highlight Italy's problematic trajectory.

### **Italy's Political Economic Trajectory: From Opportunistic Political Leadership to Pragmatic Technocratic Leadership and Back**

Although the state has always played an influential role in the SMEs, its role and influence have changed considerably over time, resulting in substantial differences among countries characterized by this variety of capitalism. In the postwar period, France was the ideal-typical model, having adopted a version of state capitalism in which the *dirigiste* state prevailed through its leadership over business activity and its control over labor. During this same period in Italy, the state also led, but it fell far short of the ideal, making for a kind of failed state capitalism in which the state was unable to provide leadership to business, to run its nationalized enterprises effectively or to control the unions. Spain was the antithesis of France, with an authoritarian state capitalism in which the fascist state predominated through its corporatist organization of business and labor, and stunted as it controlled economic growth.

Since the 1980s, much changed in these three countries. In France, the state itself engineered the *dirigiste* end of its *dirigisme* (Schmidt, 1996), thereby creating a 'post-*dirigiste*' state (Levy, 1999; Clift, 2009). The French state no longer leads business as a result of privatization and deregulation, and no longer imposes wage bargains, since state withdrawal in the 1980s led to their radical decentralization. Nonetheless, the state continues to influence business and labor by intervening where and when it sees fit – something that is taken as a right by state officials and is accepted as legitimate by the public and even those most affected, even when they contest the actions. In Spain, with the transition to democracy in the mid- to late 1970s and the accession to the EU in

the mid-1980s, the state also remained central to the liberalization of business and the move to democratic corporatism (Royo, 2002, 2008).

In Italy, by contrast, the ‘paralyzed’ state lasted from the postwar period to the early 1990s, with neither France’s centralized executive authority nor Spain’s democratic corporatism. The Italian state had a weak executive, an incompetent, if not corrupt, civil service, a strong but ineffective parliament, and a system of *partitocrazia*, or the politicization along party lines of all aspects of political and administrative life – including the appointments along party lines of managers of nationalized enterprises. In this context, business actors ignored the state when they could or, when they could not, bought it off (DiPalma, 1977). Only regional governments, especially in the north central and western regions, played an ‘enhancing’ role for the ‘third Italy’ of small interconnected business (Locke, 1995). Finally, confrontation on a massive scale was a regular part of the policy-making pattern, especially for those societal actors who felt cut out of the patronage system. Unionized labor in particular, which was strong in numbers but weak and fragmented in organization had a highly adversarial relationship with management. In the face of this, the Italian government, which frequently tried to bring labor and management to the table for coordinative negotiations, almost always failed and, unlike France, was unable then to impose wage bargains on labor and management, as pensions and wages along with public debt and government deficits skyrocketed out of control (Ferrera and Gualmini, 2004).

Italy’s political economic model improved markedly with the inception of the ‘Second Republic’ in the early 1990s, when the fall of the Berlin Wall led to the collapse and subsequent renewal of the Italian party system. Privatization and deregulation began in earnest under technical and center-left governments, as did reforms of pension systems and labor markets – in particular in the run-up to European Monetary Union (EMU). This was precipitated not only by the external political changes related to the collapse of the Soviet Union but also by internal dynamics, in particular by the *tangentopoli* (Bribesville) and *mani pulite* (clean hands) investigations that exposed the old system of political corruption and deal-making at the basis of the old clientelistic relationships. Moreover, the state gained greater capacity and a new set of political parties and politicians as a result of electoral reforms that produced more of a two-party system, and elections that brought to power ‘technical’ governments of pragmatic technocratic elites that in this initial period pushed through major liberalizing and modernizing reforms without any party vetoes and demands, and with the support of trade unions and business associations for tripartite concerted action.

This transformation began with state and societal actors who had broken with the traditional pattern even before the end of the Cold War. ‘Virtuous circles’ of magistrates beginning in the 1980s first pursued the mafia and then politicians and businessmen as the Cold War drew to a close, contributing to



the demise of the old political class. At the same time, the 1981 'divorce' between the Bank of Italy and the Treasury enabled the central bankers the freedom to follow the lead of other countries in the turn to monetarist monetary policy (Goodman, 1991). But in choosing to stop being the buyer of last resort of unsold government bonds, although it had positive effects on the emission of currency and thus inflation, the government's continued deficit spending led to the massive rise in debt.

Importantly, however, in the early 1990s in the vacuum created by the collapse of the old political class and in the absence of administrative elites or even of businesses with a sense of community, networks of academics actively involved in neo-liberal projects for political and economic reform already in the 1980s stepped in the breach in the early 1990s to exercise policy leadership (Radaelli, 2002), whether acting as advisors to the two main electoral coalitions, helping devise the electoral and constitutional reforms, or to the Bank of Italy and the Treasury. In this latter capacity, these technocratic/academic networks helped craft a highly successful macroeconomic discourse about the necessity and appropriateness of sound monetary policy that pushed state and societal actors alike to accept the austerity budgets and the labor and pension reforms necessary to enable the country to accede to EMU.

For Italy, the race for accession to the Euro was a critical moment for the country. Membership in the Euro itself served as a set of ideas as well as policy imperatives to ensure the 'rescue of the nation-state' by helping to overcome state incapacity and parliamentary inefficiency with reforms that, without the EU, could not have passed.

Prime Minister Romano Prodi's center-left government of 1996–1998, the one exception to the rule of politically opportunistic elites, continued the reform process begun by the technocratic governments starting in 1992, with EMU the goal. In his government's communicative discourse to the public, the EU was the *vincolo esterno* – the external constraint or, better, 'opportunity' – pushing reform, while appeals to national solidarity and pride – in particular if Spain were to join while Italy could not – enhanced the government's efforts to get the unions to agree to pension reforms and the public to accept even a new special tax 'for Europe' – the only country to have such a tax (Radaelli, 2002; Ferrera and Gualmini, 2004; Schmidt, 2006). On the pension reforms in particular, success came through a mix of coordinative discourse with the unions that went all the way down to the rank and file (Locke and Baccaro, 1999) and a communicative discourse to the general public focused on inter-generational justice – to give *meno ai padri e più ai figli* [less to the fathers and more to the sons] – with regard to welfare reform (Ferrera and Gualmini, 2004).

An added boost to the reform process came from the big devaluation of the national currency linked to its exit from the EMS in 1992, which produced an export boom that benefitted the country's trade balance and economic



situation. Moreover, in addition to reducing budget deficits in each of the successive technical governments came exceptional measures, like the abolition of the wage indexation allowance, a freeze on hiring in the public sector, and in 1996, the special ‘tax for Europe’.

Between 1998 and 2007, the process of neo-liberal reform continued, but at a slower pace and with much less significant results. In some cases, little was done largely because of the political opportunism of the governmental elites in power. This was especially the case of Berlusconi governments from 2001 to 2006 as well as from 2008 to 2011 which, despite campaign promises of major neo-liberal reform and a strong coalition government that had little difficulty passing legislation, seemed to be mostly committed to passing laws to solve Berlusconi’s personal judicial problems. In other cases, it had to do with the weakness of the government coalitions, which was mainly the problem on the left both in the late 1990s and between 2006 and 2008.

In this period, there were only two policy innovations worth mentioning. The first was the reform of Title V of the Constitution (approved by a center-left government) that extended the decentralization process initiated in the late 1990s, giving the regions legislative powers over all the crucial policy sectors for citizens’ life: vocational training and labor policies, health and social care, territorial and local economic development, transport and local finance, environment and so on. The second was the Biagi reform of the labor market (in 2003, passed by the third Berlusconi government) that completed the flexibilization of the labor market (liberalizing job placement services), introduced a new flexible labor formula (job sharing, job on call, job vouchers and so on) and revitalizing older atypical contracts (project contracts, occasional contracts, part time, fixed term contracts and so on).

In the interim, moreover, large companies outside of the public sector, mostly privately owned family businesses, saw an increase in their autonomy thanks to privatization and deregulation. Massive changes were also seen in firms and their financing. From a banking model for firm financing, the Italians moved to a financial market-based model in which, although bank loans to the private sector increased only marginally, total financial market capitalization increased massively, with the biggest jump in the bond market, where rates of capitalization went from an already high 65 per cent of GDP in 1975 (compared with 16 per cent for France, 30 per cent for Germany and 43 per cent for the United Kingdom) to 123 per cent in 2001 (compared with 86 per cent for France, 87 per cent for Germany and 48 per cent for the United Kingdom) (O’Sullivan, 2007). Much like France, however, the companies went to the markets mainly for mergers and acquisitions, funding regular operations and investments from retained earnings so as to be able to maintain control by the family and/or strategic large-scale investors. This, combined with privatizations that for the most part benefited the existing large banking and investment houses, like



Mediobanca, ensured that already relatively autonomous large banks and businesses only became more autonomous.

The relationship between companies and unions also improved considerably. Instead of a radical decentralization of labor markets, like in France, Italy, much like Spain, intervened to ensure better coordination between management and unions in a kind of macro-consultation (Royo, 2002; Hancké and Rhodes, 2005). For both countries, deregulation was not really an option, given that businesses and unions are stronger in members, better organized and more capable of causing real disruptions to the economic life than their counterparts in France. But the consultation was not easy – as shown by the Italian failure to organize corporatism from the postwar period into the 1990s. This new ‘state-led corporatism’ is different from that found in countries like Germany or Sweden (Schmidt, 2012), not only because of the greater role of the state but also because unions and employers are much more fragmented and poorly organized (Hancké and Rhodes, 2005).

But even if Italy, like Spain, was negotiating these ‘social agreements/pacts’, Spain’s were more successful. Whereas in Italy they only really worked well in the 1990s, in Spain they succeeded from the late 1970s to the mid-1980s and, having failed in 1986, they reemerged in the mid-1990s. In addition, in Italy these agreements remained dependent on the government’s action – which explains their successes under technical and center-left governments in the 1990s and their failures in the 2000s under center-right governments. This was not always the case in Spain, where agreements were signed even without the government (Royo, 2008).

Businesses are also remarkably similar in the two countries. In both Italy and Spain, strategic coordination in the financial markets, that derives from the existence of financing networks based on close relationships and family ties, ensures that hostile takeover bids are rare, something that is no longer the case in France. But apart from takeover bids, all three countries are similar on the basis of the informal links that their businesses sustain, much more significantly than LMEs’ companies, which maintain relations at a distance, or CME’s companies, which can rely on formal networks. In Italy and Spain, the family ties at the basis of their large companies creates a sort of loyalty that is approximated in France by the ties between large companies’ CEOs, based on a public education curriculum and professional experiences (Schmidt, 2002).

Finally, it is probably no accident that of the main countries accused by the EU Commission of ‘economic nationalism’ even before the economic crisis (other than Poland), Italy has come in for criticism along with France and Spain. Italy, unhappy in particular about French blocking of an Italian energy company’s attempted takeover, sought to block French takeovers in banking and energy. The more activist role of the state in SMEs makes this kind of action predictable, as it does the preference of these countries for EU and global regulation of the financial markets.



It is telling that from 1994 to 2008 four center-left governments alternated with four center-right governments, but with no considerable discontinuity among them. Rather than a liberal revolution, it was a hands-on mix of neo-liberal ideas – with no grand ideology, let alone a paradigm-shift, but with incremental reforms, all in a neo-liberal direction. Some of the ideas followed European directives and discourse; some of them emerged internally as contingent responses to domestic problems and urgencies. All in all, however, Italy just before the economic crisis of 2008 was not in bad shape, with its finances other than its public debt in reasonable order, although its small- and medium-sized enterprises, the motor of the internationalized Italian economy, were losing speed rapidly.

### The Economics of the Crisis: Italy in Comparative Perspective

Our three SMEs were affected differently by the crisis that began in 2008, not only because of differences in their economic figures, but also because of divergent market perceptions. France was the least affected by the crisis and, in May 2009, it was even referred to by the *Economist* as the country that had succeeded better than any other EU member state in overcoming the financial crisis. Spain was the most affected because of the bursting of its real estate bubble. But although Italy was not in as dire straits because it did not suffer from a housing bubble, it entered the crisis with the worst economic figures of the three countries (see Table 1), while its high public debt was a time bomb that endangered it increasingly during the sovereign debt crisis of 2010. Moreover, the ‘third Italy’ of small firms was in particular trouble, with a sharp decline

**Table 1:** Italy, France and Spain in comparison

	<i>Italy</i>	<i>France</i>	<i>Spain</i>	<i>EU 27</i>
GDP Growth 2009	−5.0	−2.6	−3.7	−4.2
Debt as percentage of GDP 2009	115.8	77.6	53.2	73.6
Deficit as percentage of GDP 2009	−5.3	−7.5	−11.2	−6.8
Relative unit labor costs 2009	117	102	115	—
Unemployment 2010 (%)	8.4	10	20.3	9.6
Temporary employment 2010 (%)	12.5	13.5	25.4	13.5
Youth unemployment 2009 (%)	25.3	23.5	39.2 <sup>a</sup>	15.6
Women’s employment 2009	46.4%	60.1%	52.8	58.6
Risk-of-poverty rate after social transfers 2009 (%)	19	12	18	16
Ease of doing business 2009 (ranking, 1 = best)	78	31	62	—
Perception of corruption 2009 (best score 9.4/10)	4.3	6.9	6.1	—
Perception of competitiveness 2009 (1 = best)	50	28	39	—

<sup>a</sup>Data for August 2010.

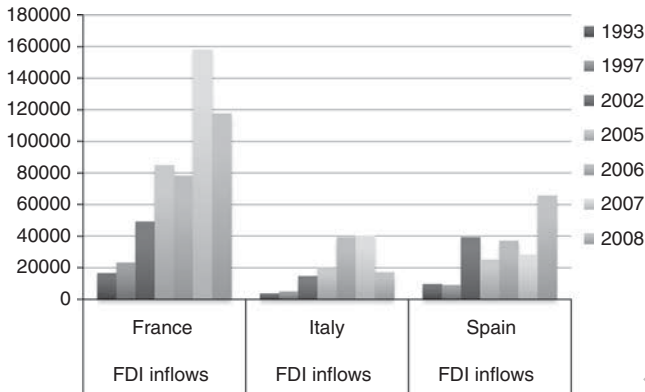


in exports along with the drying up of credit leading to many closures, as well as a dramatic rise in the suicide rates of the firms' owners.

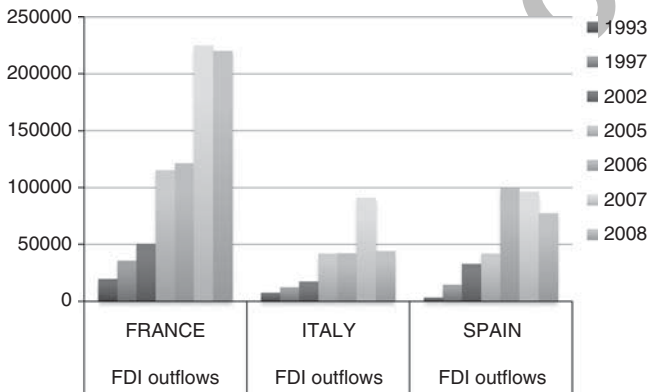
Early in the crisis, Italy experienced the greatest loss of economic growth with a GDP loss of  $-5$  per cent in 2009, whereas Spain lost only  $-3.7$  per cent and France  $-2.6$  per cent, in both cases less than the EU average of  $-4.2$  per cent. In addition, although Italy's debt was already at the extraordinary level of 115.8 per cent of GDP, only worse than Greece as of 2009, France's debt was at a respectable 77.6 per cent of GDP and Spain's at an even more respectable 53.2 per cent of GDP. According to the data of the Bank of Italy, between 2008 and 2009, GDP growth dropped by 6.5 percentage points, almost half of the wealth produced in the previous 10 years, with families' real income declining by 3.4 per cent and their consumptions by 2.5 per cent. Exports fell by 22 per cent and company investments contracted by 16 per cent. Moreover, unemployment benefits (*Cassa integrazione guadagni*) in the industrial sector rose by 12 per cent at the end of 2009, employment diminished by 1.4 per cent and the number of worked hours was down by 3.7 per cent. Finally, company failures were 25 per cent more than in 2008 (Banca d'Italia, 2010). The picture, in short, was alarming with regard to the job crunch and its effects on the weakest categories of the labor market (the young, temporary workers, women and the long-term unemployed).

On the positive side, Italy had a rather modest deficit of  $-5.3$  per cent of GDP, less than France, which was slightly higher, at  $-7.5$  per cent, and much less than the Spanish deficit, which stood at a dangerous  $-11.2$  per cent of GDP (Eurostat, 2010). In addition, the Italian level of firms' and households' private debt remained lower than in other European countries – for example, Italy's household debt was 57 per cent of disposable income in 2008 compared with the European average of 93 per cent. The liquidity ratio of banks was not a cause of concern either. All this explains why at the beginning of the financial crisis the country did not have the same problems as the Central and Eastern European Countries, was not initially included in the 'PIGS' (Portugal, Ireland, Greece and Spain – although the second I for Italy was added in 2011), or the United Kingdom. And this also explains why, despite its high level of public debt, Italy was not threatened by contagion from Greece's sovereign debt crisis in the same way as Spain in 2010, attacked for its deficit and for the suspected bad debts of its banks. This changed, however, by summer 2011.

That said, on almost all measures of competitiveness, Italy has been the worst of the three. For the relative unit wage costs in the manufacturing industry, in 2009 Italy placed at 117, having a cost marginally higher than Spain, at 115, and much higher than France, at 102 (OECD, June 2010). Besides, with regard to foreign direct investment (FDI) by Italian companies abroad and by foreign firms in Italy, the country has been far behind France and even behind Spain in terms of volume and growth trajectory (see Figures 1 and 2).

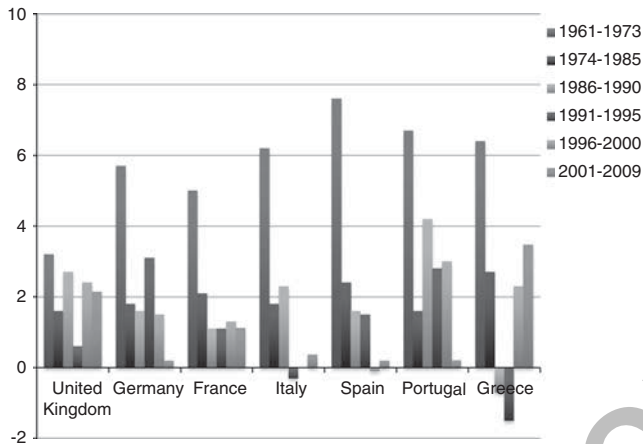


**Figure 1:** FDI inflows.  
*Source:* Unctad 2009.



**Figure 2:** FDI outflows.  
*Source:* Unctad 2009.

Moreover, on the many indexes that classify businesses' competitiveness, as mentioned in the introduction, Italy has been in trouble, and has certainly remained behind France and Spain (see Table 1). On the ease of doing business index, for example, Italy was the worst among European leaders, at 78, far behind France at 31 and Spain at 62, let alone the United Kingdom at 5 and Germany at 25 (World Bank 'Doing Business', 2010). On the Transparency International Corruption Perceptions Index (2009), Italy, at 4.3 out of 10 as the best score, was once again behind France, at 6.9 out of 10 and Spain, at 6.1, and ahead only of Greece, at 3.8 out of 10. Finally, the picture was similar with



**Figure 3:** Growth of real salaries between 1961 and 2009.

Source: [http://ec.europa.eu/economy\\_finance/publications/publication12534\\_de.pdf](http://ec.europa.eu/economy_finance/publications/publication12534_de.pdf), Statistischer Anhang zu Europäische Wirtschaft Frühjahr 2008.

regard to competitiveness, with Italy at 50 (with 1 the best score), coming way behind Spain was at 39 and France at 25, especially by comparison compared with Denmark, which had a score of 5 (IMD World Competitiveness Yearbook, 2009).

Concerning labor, employees were worse off in Italy than in France or even Spain in terms of growth of real wages since the 1990s (see Figure 3). For Italy, it should be noted that the erosion of real wages was felt even more intensely because of retailers' price increases following the launch of the Euro in 2002. This could also explain why so many Italians have developed some hostility toward the single currency, which they held responsible for the ever-rising cost of living – instead of blaming Berlusconi's government for failing to control retailers more effectively. In a recent Pew Survey (2012), Italian respondents came in second only to Greeks, at 89 versus 93 per cent, respectively, on worries that rising prices posed a major threat to the economic well-being of the country (as opposed to 74 per cent for both France and Spain). That said, the purchasing power parities for GDP show that price levels in Italy went hand in hand with Germany's and, with a score of 113 in 2009, prices in Italy were much lower than in France, at 122, but still quite high when compared with Spain's score of 100 (OECD, 2010).

The main issue of concern for all three countries is the job market, and at least here Italy was doing a little bit better than the other two countries (see Table 1). Unemployment, already at the unsustainable level of 8.4 per cent in Italy, was worse in France, 10 per cent, and even more dramatic in Spain,



20.3 per cent, against the European average of 9.6 per cent in July 2010 (Eurostat), while by June 2012 it was up to 9.8 per cent in Italy, 24 per cent in Spain. To the problems of unemployment we should add temporary work, which has been lower in Italy, at 12.5 per cent, than in France, at 13.5 per cent, and especially than in Spain, at a staggering 25.4 per cent by 2010. Youth unemployment, at 25.3 per cent in Italy in 2009, was higher than in France, at 23.3 per cent, but well below Spain, at 39.2 per cent in August 2010 (Eurostat, 2010), which then skyrocketed to around 50 per cent by 2012. Italy's real problems lie in its rate of women's employment which, at 46.4 per cent in 2009, have been more than 13 points below the Lisbon target, low even when compared with a still very low 52.8 per cent in Spain, and to a much higher 60.1 per cent in France, which is ahead of the European average at 58.6 per cent (Eurostat, 2010). Finally, the risk-of-poverty rate after social transfers is higher in Italy, at 19, than in Spain, at 18, and in France, at 12, as well as in the Euro zone, at 16 (Eurostat, 2010).

Considered together, these figures alone tell us a lot about the differences among these SMEs. Although France can be seen to have 'embedded liberalism', with strong state regulation that seeks to promote equality along with markets that work efficiently, Italy as well as Spain have 'embedded illiberalism' in which strong state regulation undermines both market efficiency and equality, by hindering market performance in favor of powerful social groups (Blyth and Hopkin, 2011).

When the economic crisis hit in 2008, all three SMEs faced serious challenges, but Italy's problems, and even more so Spain's, exceeded France's. Having said that, although all three countries rapidly responded to the call for economic stimulus policies – with France assuming a position of leadership in the European and global forums – they did not do much more until the sovereign debt crisis hit. Only at the end of May 2010 did they agree to follow Germany and the EU in imposing fiscal austerity. And this only further limited their room for maneuver with regard to addressing the problems of poverty and unemployment. That said, however, whereas the reforms were draconian in Spain, in Italy the promised fiscal reforms were significant, but they were for the most part not implemented. Only with the appointment of the technocratic government of Mario Monti to replace Berlusconi's elected government in November 2011 was there the expectation that Italy, too, would begin to make the necessary reforms.

### **Italy in the Crisis: From Opportunistic Political Leadership to Pragmatic Technocratic Leadership Yet Again**

Italy's response to the economic crisis while Berlusconi was Prime Minister from 2008 and 2011 was very weak. Although some might attribute this to the



path dependency of an inefficient state with stalemated political structures, it can also be explained in terms of the personality of the leader (Berlusconi), the opportunistic politics of a political elite with few innovative ideas, and a public that would welcome reform of any kind, but no longer believed it would ever happen. That said, in late 2011, a new political era seemed to open up with the appointment of Monti's 'technical' government.

### **Opportunistic Political Leadership in the Economic Crisis**

Early in the crisis, while President Sarkozy received endless praise for his leadership in Europe and worldwide, it is unsurprising that his Italian counterpart failed to receive any at all. It was not only because the Prime Minister Berlusconi seemed to spend much of his time partying, including with 17-year-old girls, but also that in the face of a contraction of the Italian economy much deeper than that of France, the government did even less to counter such contraction through stimulus.

The lack of commitment to neo-liberal reform in the Berlusconi years was easily apparent from the government's communicative discourse to the public. The government oscillated between optimism and appeal to the long-standing virtues of the economic system (high saving propensity of the families, low level of private indebtedness, strength of the banking system) on the one side, and cautiousness and repeated calls to austerity and sacrifices on the other. Berlusconi himself shifted between intoning: 'It's a dramatic crisis ... especially for the effects on the real economy' (*Il Corriere*, 23 November 2008), and blustering: 'We will get out earlier from the crisis; we have a strong banking system, our banks have not been involved in toxic securities, Italian families are high savers and each Italian who loses his job gets a 70 per cent compensation ...' (*La Stampa*, 23 February 2009). But whereas the talk was reasonably positive, the action was not: the structural problems and inefficiencies inherited from the past were not tackled. And the kinds of austerity measures imposed in 2010, in response to the dangers of contagion from the Greek crisis, did little to remedy such problems or to promote growth.

Moreover, the reform process did not seek to rally the public behind it with a strong communicative discourse, nor did it attempt to coordinate with the social partners, in marked contrast with the 1990s. Instead, it was 'authoritarian', with the government passing legislation by way of votes of confidence – which shut off debates and stopped amendments – and centralizing power in the hands of the Minister for the Economy. In the Berlusconi era, we find high centralization of political power in the core executive, with a progressive decoupling from the social partners, especially trade unions, and from dialogue with the major opposition party (the Democratic Party). The only elements



the two processes have in common are the escape from ‘ordinary’ politics and the ‘submission’ to external European constraints: in 1992–1995 the Parliament was absent and unable to work because of the corruption scandals while technical governments were responding to the Maastricht requirements; in 2008–2010 the Parliament was absent too because of the ‘command and control’ decision making style of the Premier on the one hand, and the rigid European budgetary constraints on the other. But unlike in the 1990s, when the country unified behind the reforms, united by the idea of joining EMU, this time the lack of parliamentary involvement, combined with the authoritarian style of legislating, only served to impoverish Italian democracy, and led to increasing public disaffection accompanied by cycles of public protest and strikes.

The Berlusconi government, although not coming near to fulfilling its promises at the time of the elections or once the crisis hit, nonetheless did reform to some extent. Some electoral promises were fulfilled, such as the abolition of the municipal tax on the first property, reduction in taxes on overtime work, introduction of a social card for poor citizens, passage of a reform of the public sector focused on competitiveness and performance control, and a heavier fiscal burden for rich companies, like banks, energy and oil companies. Moreover, the government supported the banking system – which had not been hit terribly hard by the crisis – through the emission of secure bonds (the ‘Tremonti bonds’), through entry into the capital of some banks and the assurance of emergency liquidity assistance by means of the Bank of Italy (Rovelli, 2010). In addition, a number of measures were taken to improve the prospects of the small firms, in particular in the regions of the third Italy, including granting regional governments the power to ‘complement’ state intervention with their own social shock absorbers ‘in departure’ from national legislation (Jessoula and Alti, 2010).

An emblematic example of such activism was the state rescue of a bankrupt Alitalia. In the electoral campaign, in response to the Prodi government’s failure to exclude foreign takeover of the carrier, Berlusconi seized the moment to promise not to sell Alitalia to foreign companies in order to save domestic jobs. Once elected, Berlusconi blocked the takeover by Air France, declared a state of bankruptcy and then facilitated Alitalia’s takeover by a group of Italian private companies – all of which cost a lot to the state (€300 billion plus the financing of unemployment benefits). Other instances of state intervention – in keeping with the traditional approach to state interventionism – involved seeking to save what the government deemed its strategic industries, and included attempts to scuttle takeovers, mainly by French firms, of Italian energy firms (for example, Edison, the second largest provider of electricity), banks and the dairy firm involved in the early 2000s Enron-like scandal, Parmalat, subject to a takeover bid by French dairy firm Lactalis.



More generally, however, the traditionally cozy relations between the state and business have been deteriorating. Once the hope of business for liberalizing reforms, Berlusconi came to be seen as a disaster. As Emma Marcegaglia, head of Confindustria, declared in a widely reported speech to the business association's assembled membership (26 May 2011), 'Italy has lost 10 years of growth', although 'for 3 years we have continually called on our political leaders saying that there was a need for growth and reform', but nothing happened. She also criticized the across the board cuts resulting from the austerity measures, claiming that a thorough rethinking of the state with cuts in its size and deep reforms in its spending programs were essential to relaunch business competitiveness. In the face of government inactivity, moreover, business has been trying on its own to negotiate labor reforms with the unions – both collectively through bipartite national discussions and at the firm level. Most notable on this latter score has been Fiat's ground-breaking negotiation in January 2011 of a firm-level agreement on measures to limit strikes and curtail absenteeism and work breaks in exchange for massive investment in its Italian plants, and on threats of Fiat leaving Italy entirely if the workers did not ratify the agreement.

Only in 2010, as the Greek crisis intensified, did Berlusconi try to be more present on the world stage, probably because his popularity had plunged, falling from peaks of 57 per cent to the historic low of 39 per cent in spring 2010 (CIRCAP, 2010), and even worse in November 2010. It was then that his statements on the crisis became more frequent in the media, declaring: 'If we add public and private debt, we are the richest country of Europe, a little above the Germany' (*Il Corriere*, 20 May 2010). At the end of May 2010, after the historic decisions of 9 May on the Greek crisis, when the President of the EU Commission Barroso came to Italy, Berlusconi changed his tone. He now spoke of 'the harmony of ideas and values' with the President of the Commission, and of the shared belief that European countries had until then lived beyond their means and should therefore undergo thorough financial reforms.

But despite all these statements, Berlusconi had only reluctantly given the go-ahead for a move in the direction of austerity devised by the Minister of the Economy Tremonti who, in a public speech in Freiburg, stated that: 'austerity has become the new ideology of Europe'. The anti-crisis legislation included a 'special tax shield' to encourage the repatriation of financial capital illegally held abroad (offering a flat rate payment of 5 per cent) that would be used to finance special measures to counter the effects of the crisis. In addition, 24.9 billion in cuts were imposed in 2010 through drastic reductions of transfers to sub-national governments; stricter rules on eligibility for disability pensions; an increase in retirement age for women in public services; the abolition of automatic wage increases for all public employees for 3-year and a hiring freeze; a reduction of attorneys' and magistrates' salaries; the reduction of ministers',



high elected officials' and political parties' benefits and refunds; tighter controls on pharmaceutical spending by the regions; a special tax for tourists in Rome; more toll roads; deeper cuts for universities, already in poor condition; and much more.

By the middle to the end of 2011, Berlusconi's political career had become more and more disrupted by public and private scandals, including one with another 17-year-old (Rubygate). Moreover, there were growing tensions and conflicts within his coalition. That the public was no longer amused by all of this was made amply clear by the massive losses for Berlusconi and his coalition members in municipal elections in May 2010 and in four referendums in June 2011. But with a frail Democratic Party in the opposition, internally fragmented and unable to reorganize around a clear political identity, and with divided unions, it took the markets turning their attention to Italy, pushing the price of interest on government bonds to an unsustainable level, to push Berlusconi out of office in November 2011.

### **Pragmatic Technocratic Leadership in the Economic Crisis**

When Mario Monti was appointed by the President of the Republic to head a new 'technical' government of 'national commitment', he generated high expectations as 'the man who can save Europe' (*Time*), while national citizens accorded 'Super Mario' growing levels of trust. His government of technocratic elites was composed mainly of academics and no politicians but had the backing of major parties in Parliament on the right and left. Its mandate was no less than to reform all aspects of Italian government and administration while putting the country back on the road to economic recovery – a very tall order, given the spreads in the bond markets and the lack of growth of the economy. There were also debates about the possible democratic deficit of the executive in this 'blocked' or 'suspended' democracy (Schmidt, 2011; Ceccarini *et al*, 2012; Fusaro, 2012). But the government was generally considered legitimate, just as similarly technical governments were in the 1990s.

The reforms passed by the government had ideationally rich titles and ambitious targets. They began with the 'Save-Italy' decree that the government explained was 'shock therapy' for a 'terminally ill' patient and that 'sacrifice' was necessary – as Labor Minister Elsa Fornero declared while shedding tears – through a massive reduction in the budget deficit through tax rises, pension reforms, and cutting the size and costs of administrative bodies (Jones, 2012). This was followed by the 'Grow-Italy' decree that sought to liberalize closed professions, fight tax evasion, as well as reorganize labor markets. The coordinative negotiations for the last of these are still ongoing, focused around the extent to which the reforms will balance *laissez faire* neo-liberal ideas about



labor market deregulation through, for example, easy hiring and firing with more social-democratic concerns about recalibrating rights, revising temporary contracts to provide for greater social protection, and the like.

The main questions for this final episode in Italy's political economic trajectory are whether Monti's government of technocratic elites was oriented more toward the *laissez faire* neo-liberal policies generally supported by the center right or the social-democratic market liberalism of the center left. The Berlusconi era involved a mix of liberalism (although more rhetoric than reality) and domestic protectionism, combining high protection for domestic businesses (including Alitalia, Berlusconi's own companies, the mass media market and so on) and full liberalization in sectors like the labor market and the bureaucracy – but not the closed professions. By contrast, Monti's policy paradigm appeared on the one hand a more market-led liberalism, as it sought to deregulate markets (Moschella, 2012), and on the other, paradoxically, a state-led liberalism, in the sense that it engaged in a higher degree of 'stateness' (Cassese, 2011). This is not the Berlusconi state, but a more autonomous and efficient one, with stronger and more legitimate institutions able to give a clear direction to the country and to play a pivotal role in domestic as well as international policymaking. As such, it sought to turn Italy's 'state-hindered' market economy into a 'state-enhanced' one.

'Montism' also contains the recognition not just that Italy cannot exist without Europe because, as Monti emphasized 'you can do without me, but not without Europe' (*New York Times*, 5 December 2011), but equally that Europe also cannot operate without Italy's support. The public itself seemed again open to the 'rescued by Europe' effect that we saw also in the mid-1990s. It is telling that of the eight countries surveyed by Pew (2012), Italy was the least opposed to EU authority over member countries' budgets (at 40 versus 45 per cent in favor), with France a good 11 points higher at 51 per cent opposed (although with 49 per cent in favor) and Spain 14 points higher at 54 per cent opposed (42 per cent in favor) – with Britain and Greece, interestingly enough, both at 75 per cent opposed. That said, in the local elections of May 2012, the high scores of members of Beppe Grillo's Five Stars movement, which is anti-Euro and Eurosceptic, suggests that Italy's seemingly unquestioning support for the EU, already in question under Berlusconi, may undergo even further erosion.

Monti's leadership on the European stage, however, has effectively brought Italy back as a credible European and international player. He was largely responsible for the beginnings of the shift to a discourse about growth that Chancellor Merkel could not ignore. Whether Monti's voice will continue to make a difference depends mainly on whether his policies actually produce growth while remaining legitimate in the view of the Italian public. By Spring 2012 the initial enthusiasm had fallen somewhat, as the Pew Survey showed,



although a plurality still felt that Monti was doing a good job (48 versus 44 per cent who thought he was doing a bad job). This contrasts with the recently elected Prime Minister Mariano Rajoy in Spain, whom a majority of Spaniards felt was doing a bad job (50 versus 45 per cent who thought he was doing a good job).

In December 2012, the Monti government lost the trust of the PDL party (the centre-right party led by Berlusconi's successor, Angelino Alfano), which abstained from voting on an economic bill (*decreto sviluppo*) and the law on the ineligibility of MPs if charged with previous convictions. Although the purported reason was that the Pdl could no longer support a government that imposed too much austerity and sacrifice, the impression was that Berlusconi wanted to bring down the government in order to have early elections (otherwise scheduled for March 2013). Monti then resigned and national elections were called for 24 February 2013. To no one's surprise, Monti subsequently announced that he would enter the political competition at the head of a new centrist movement pledged to implement his economic agenda. Within the space of a few weeks Monti thus switched from technician to politician, as the 'federator' of different political forces (the so-called Third Pole). He then received many endorsements and a lot of support as 'Super-Mario 2' (number 1 one being Mario Draghi) from European leaders and institutions, a first in Italy. The success of Monti's agenda in the Italian political debate was remarkable, in particular as it was estimated to get 20 per cent in the election, close behind the Democratic Party, which would then be its natural coalition partner. It remains to be seen how this new centrist alliance will affect Italy's bipolar political system.

## Conclusion

Italy, in sum, has had major economic problems that stem not only from its politico-economic institutions, but also from its political institutions, its policies and its politics. These problems begin with its variety of capitalism. The central role of the state in this variety of capitalism requires a well functioning state – even more than in other varieties of capitalism, where the most important feature is either the market (liberal market economy), coordination between management and unions (CME) or external capital (DME). But what does 'well functioning' mean? To begin with, it demands the leadership of political elites who have good ideas that can serve as the basis for coordination with the social partners and communication with the general public. But this also requires political institutions that work, a government that is competent and has integrity, and that has the will as well as the capacity to negotiate its ideas with the social partners and to legitimize them with the public.



As it stands, Italy when headed by its typically opportunistic political leadership has had none of these attributes. Moreover, all the economic crisis beginning in 2008 did was intensify these political problems. But in the end the economic crisis produced a political crisis that led to the fall of Prime Minister Berlusconi. His replacement with pragmatic technocratic leadership under Prime Minister Monti replays the pattern of the mid-1990s, when major reforms were accomplished. Then, at the beginning of the Second Republic, it was hoped that the pattern of political opportunism would be replaced by well-functioning governments with competence and integrity, once the technocratic government was replaced by a democratically elected one. For a time this was the case, but ultimately the old patterns returned. The question today is whether the future government, with or without Monti, will finally provide enduring pragmatic political leadership that breaks with the past patterns once and for all.

### About the Authors

**Vivien Schmidt** is Jean Monnet Professor of European Integration, Professor of International Relations and Political Science, and Founding Director of the Center for the Study of Europe at Boston University. She has published widely on European political economy, institutions and democracy, with 9 books and over 100 scholarly journal articles or chapters in books and on the Eurozone crisis, in policy venues. She has been a Visiting Professor or Scholar at the Free University of Berlin, Sciences Po, LUISS, the Free University of Brussels, Oxford, Cambridge, and Copenhagen Business School, among others. Her most recent book is *Resilient Liberalism: European Political Economy through Boom and Bust* (co-edited with M. Thatcher, Cambridge, 2013).

**Elisabetta Gualmini** is Full Professor of Political Science at the University of Bologna, where she teaches Public Policy. She is also the President of the National Research Foundation 'Istituto Cattaneo' and a Columnist for the national newspaper 'La Stampa'. She has been a Visiting Professor at the London School of Economics, the Berlin's Wissenschaftszentrum fuer Socialforschung, the Humboldt University, the University of Berkeley and University of Los Angeles. She has published 7 monographs and more than 30 papers in Italian and in English.

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