Mario Pianta

Sliding to the periphery – Italy, the crisis and Europe

'Weak state, strong society' has long been a trademark of Italy; which meant low nationalist feelings and high sympathies for Europe. After all, the manifesto of European Federalism came in 1944 from the anti-fascists around Altiero Spinelli confined on the island of Ventotene, and Italy was a founding member of the European Economic Community in 1957. Europe has long been understood – by right and left alike – as a framework for strengthening Italian democracy and compensating for the historical weakness of the country in international affairs and administrative efficiency. During the Cold War the idea of Europe helped provide some space of political autonomy in a country highly subordinated to US power. After the end of the Cold War, the making of the European Union and the euro received very widespread support – from political forces and public opinion – with the promise of a higher political profile and closer economic integration, ending the sequence of currency crises and devaluations of the lira. What Europe meant was the prospect of completing the modernisation of the country, consolidating an advanced economy, expanding welfare and democracy. Reality turned out to be the opposite – economic decline and degradation of democracy– and Europe is becoming increasingly unpopular.

A long flirt turning sour

A poll of September 2012 (by Ilvo Diamanti's Demos, http://www.demos.it/a00759.php?ref=NRCT-43137808-2) shows that the share of Italians stating that they have very much or a lot of trust in Europe is now at 36%, compared to 49% in 2010, before the euro crisis hit Italy, and to 57% in 2000, when the effects of the euro could not yet be perceived; however, half of respondents say that Italy would be worse off outside Europe and the euro. Italy has long been one of the most pro-EU countries (shown in Eurobarometer's results as late as 2004), but over the last two years perceptions have changed and trust in the EU is now among the lowest in Europe.

Support for Europe is much higher (about half, as opposed to the overall average of 36%) among those who give high marks to the present 'technical' government of Mario Monti. Interestingly, in Italy voters of the Left have maintained a pro-European attitude, with 55% of Democratic Party supporters and 46% of SEL (Left, ecology, freedom, a leftist Green group not present in Parliament) having high trust in Europe (poll of September 2012). More sceptical (with high trust scoring between 30 and 39%) are the supporters of the centrist catholic UDC, of the more populist leftish Italia dei valori (IDV) and of the rising anti-political Five Star Movement of the comedian Beppe Grillo (with some commonalities to Northern Europe's Pirate Parties). The real surprise is the collapse of European sympathies among the Right; high trust in Europe is reported by 17 to 26% of voters for Silvio Berlusconi's Popolo delle Libertà (PDL), the populist and autonomist Northern League and the former post-fascists of Futuro e Libertà (FLI), the forces that had won the last elections and governed Italy for most of the recent past. Populist and right wing forces are developing an anti-EU rhetoric that reflects the disillusionment and social malaise of most Italians – including those with low incomes and living in the poorest regions. The same social groups were in fact the victims of the pro-rich, pro-privilege policies of the Berlusconi government and are now courted by the Right with an anti-EU agenda. Conversely, the Left defence of a more responsible and realistic attitude towards Europe is likely to become increasingly unpopular if current EU policies are not radically changed.

The present 'technical' government by Mario Monti is supported by the Democratic Party, Popolo delle Libertà, Futuro e Libertà and the centrist catholic UDC, but its harshly neoliberal austerity policies are at odds with the positions of most political forces and deeply unpopular among voters; the consensus it obtains rests on a massive public opinion campaign in its favour by the major media, business and financial interests and on the fear of a worsening of Italy's conditions without a leader like Monti who enjoys 'credibility' in Europe and with the financial markets. This confused mix of economic pain, European delusion and political turmoil is now shaping the debate preparing the next elections of early 2013. But how did Italy get into such a confused state?

The wrong Europe

First, let us look at what type of Europe we have. On 7 February 1992 European governments signed – in Maastricht – the Treaty on the European Union that opened the way to the Economic and Monetary Union and the creation of the euro. At the same time, the Single Market – a much closer trade integration – and the total liberalisation of capital movements were introduced. The Cold War was over, the regimes of Eastern Europe had collapsed and Germany was re-unified. Neoliberalism and finance had become polar stars of European integration. The retreat of labour and the power of profits and financial rents were on the agenda. Markets were put at the centre of the European project, relying on their ability to generate growth through greater efficiency and investments fuelled by mobile capitals. The necessary condition was to slash inflation and interest rates, stabilise exchange rates, cut public deficit and debt, so that European economies keen on joining the Monetary Union could be drawn closer together – in terms of financial 'fundamentals'. European governments were giving up the 'Keynesian' policy tools that had supported the highly successful post-war growth – public expenditure and exchange rate devaluation – counting on the strength of private demand and exports in a rapidly globalising economy.

Such plan immediately fell into the trap of finance. Six months after the signing of the Treaty a major crisis led to the exit from the European Monetary System – the currency agreement of the time – of the British pound, the Italian lira and the Spanish peseta, with devaluations of up to 30%. Drastic policies were introduced in all countries – cuts in wages and public expenditure, privatisation of public enterprises, in order to balance public budgets and foreign accounts, reduce inflation and stop speculation against national currencies. In Italy such policies marked the start of economic decline. In Europe, it was the birth of a Monetary Union where finance ruled.

Twenty years later, what has happened is clear to all. Europe did not find an alternative source of demand – exports to the US and Asia worked for Germany and few others only. Investment had a modest growth and was mainly directed to financial activities promising much higher returns than in industry and services. Consumption stalled, as real wages did not increase and inequality jumped. Public expenditure was – almost – stopped by the constraints of Europe's Growth and Stability Pact. As a result, growth in the old continent has become sluggish – and increasingly uneven – and job creation far below – in quantity and quality – what was needed.

True, the launch of the euro as a world currency has been a success – the first currency that is not backed by gold and reserves. True, the European Union is the world's largest economic area. True, eurozone countries have remained far from the financial excesses of the US and the UK. But the new space for a common European economic policy has not been used. Half of the action – fiscal policies – was missing. No tax harmonisation was introduced; within the EU we still have fiscal heavens. No public expenditure at the Union level, which could compensate for national cutbacks, is in place. No surprise that growth was sluggish and uneven. In this process at least ten percentage points of Europe's GDP went from wages to profits and financial rents. Europe has become closer to the US model of financial capitalism, has lost jobs, social rights and welfare.

Within Europe, such a model of neoliberal integration disregarded the real economy, the strong differences across countries in terms of production and export capacities, technologies, market power of large firms, productivity, employment, wages.

In a context of slow growth, single market and single currency, the strong economies of Europe grew stronger. German exports, supported by high technology and productivity – and no more hindered by an appreciating exchange rate – invaded the rest of Europe. Economic and political power became increasingly concentrated. Germany, France (barely) and northern Europe became the centre. Southern Europe (Italy included), Ireland and the east were the periphery. The United Kingdom placed itself more outside – close to the US finance-driven model – than inside Europe.

Italy's economic decline

Second, let us follow the trajectory of Italy's decline. Italy entered the Monetary Union with a 'second Republic' marked by deep political change. Since 1994, the centre-right governments of Silvio Berlusconi (1994-95, 2001-2006, 2008-2011) adapted neoliberal rhetoric and policy to serve the élite's privilege. The Italian landscape became one of industrial decline, few export niches of 'made in Italy' fashionable goods, plunder of public enterprises and services, easier tax evasion, opulent consumption of the rich, precarious lives of the young, impoverishment of the south. Four short-lived centre-left governments (1996-2001, 2006-2008) did try some correction, but never questioned the neoliberal agenda. All governments introduced privatisation of public assets and services – including water provision, rejected by the referendum held in June 2011 – elimination of the inheritance tax, the lowest tax rates on financial incomes, wage agreements and pension reforms that made workers poorer, no industrial policy, no limit to inequalities. The result has been a decade of stagnation – today Italy's real GDP is the same as in 2001.

In 2012 the Italian economy is expected to decline 2.4 percent, according to OECD forecasts. It had fallen by 1.2 percent in 2008, 5.1 in 2009 and has stagnated in 2010 and 2011, one of the worst performances in Europe. Moreover, from 2000 to 2009 Italy's labour productivity has decreased by 0.5 percent per year on average and is now back to the levels of the early 1990s. There are no precedents of such a decline among advanced countries.

A cake of smaller size has been sliced unevenly. Eurostat's national accounts figures show that in the 17 countries of the euro area the share going to gross profits was 40 percent in 2010, that of wages 60 percent. In Italy the profit share is larger at 45 percent in 2010 against 55 percent for wages (it peaked in 2001 at 48 percent). The profit share in Germany is smaller (39 percent in 2010 and 36 percent in 1999); in Sweden just 30 percent of national income goes to capital. In Italy the large number of small businesses results in a larger share of income going to working owners. But the figures here show a profit share that is a quarter higher than in other large European countries and 50 percent higher than in highly efficient Sweden, which spends three times as much as Italy on research and development. In contrast, Italian business – with research and innovation efforts much lower than in Europe's average – did not invest their high profits in new technologies and production capacity, leading to the dismal productivity performances reported above.

The result was a loss of competitiveness compared to EU countries, which – in the eurozone – could not be compensated anymore by currency devaluations. Wage cuts and precarisation of work reduced business costs, but further discouraged investment in technology. Low consumption further depressed the economy, leading to high unemployment (now above 10 percent) and one third of jobless youth.

All this caused a serious rise in inequality. Using OECD figures, the average disposable income of households headed by persons of working age in Italy was €19,400 in 2008; €49,300 for the top 10 percent; a mere €4,900 for the poorest 10 percent. The richest 10 percent average *ten times* that of the poorest 10 percent (it was eight times in the mid 1980s). In the last two decades total disposable income increased on average by 0.8 percent per year. The income of the poorest 10 percent was practically stagnant (a rise of just *€200 per capita*); the richest 10 percent had incomes rises of *€11,000 each* on average.

Moving up the ladder, the richest 1 percent of Italians – 380,000 persons of working age – took a slice of the total income pie equal to nearly 10 percent in 2008, compared with 7 percent during the 1980s; every 'super-rich' Italian makes as much as 40 poor people. And if we go even higher, the top 0.1 percent – 38,000 'ultra-rich' Italians – can spend as much as the bottom 3.8 million: *every ultra-rich person has the income of 100 poor people*. This is not Dickensian England or Depression-era America. It is the Italy (and Europe) of today.

Italy's crisis and its political consequences

Third, we have the effects of ‘great recession’ arriving in 2008 and due to stay with us well into 2013. Against the backdrop of Italy’s long term decline, the financial crisis had at first a modest impact; the country has a limited role of finance, the Stock Exchange and pension funds.

Berlusconi’s government at first tried to avoid facing reality, persisting in its decade-long mix of privilege, populism and media manipulation. Developments in the global economy were left on the sidelines and Italy retreated from any serious debate on Europe. The reawakening suddenly came in the summer of 2011.

The prolonged recession was hitting tax revenue, requiring extra spending, leading to higher deficits and returning the public debt to GDP ratio to 120%. While in Italy about half the debt is funded by domestic savings and turns out into private assets, the sheer size of the debt – now at 2000 billion euros – opened the door to the speculative attacks of July and August 2011, leading to record interest rate spreads with German bonds.

Italy’s crisis in the summer of 2011, fuelled by the contagion effect from the collapse of Greece, Ireland and Portugal, led to a letter by the European Commission and the ECB dictating the agenda of austerity policies for the country – a serious blow to democratic processes. The Berlusconi government was forced to resign, in spite of its huge parliamentary majority, by the combined forces of European institutions and German government from the outside and, from the inside, the Italian president of the Republic Giorgio Napolitano (an ultra-moderate former Communist) and the banking, business and media élite. The ‘technical’ government of Mario Monti was put in place with bipartisan support from the reluctant Berlusconi party and from the centre-left Democratic Party who was unable to force early elections and a change in government majority. This uneasy grand coalition is running Italy until the new elections of spring 2013.

Austerity policies, started with the Berlusconi government, accelerated since Mario Monti formed the new government, introducing cuts in pensions and longer years of work before retirement, wage freeze for public employees, reduction of employment protection and further precarisation, liberalisation of services, planned sale of public activities, across the board cuts in public spending (education, health, local services, environmental protection, but no cuts in the military budget). A real estate tax was re-introduced but no taxation of financial wealth was considered.

Such austerity policies – in a contest of sluggish export dynamics, falling consumption and collapse of private investment – further depressed the economy. Manufacturing output is now 25 percent below its pre-crisis level, high technology activities, and the auto and electrical appliances industries are facing a dramatic fall of capacity and jobs, firms’ closures multiply, about a million jobs are being lost. The deepening of the recession is in turn reducing tax receipts, raising emergency public spending, lowering the expectations of financial markets on Italy’s prospects, resulting in worsening public debt problems. There is no way in sight out of this vicious circle.

One possible outcome of this deepening crisis is that Rome may request European help under the newly approved European Stability Mechanism (ESM) and ECB’s plans of intervention against persistently high interest rate spreads. Both would come with harsh conditions attached – further austerity, public spending cuts, privatisations and wage reductions – enshrined in a Memorandum with the IMF, the European Commission and the ECB as watchdogs. Such a long term commitment of the country would basically leave no choice on policy alternatives in the 2013 elections. Democracy would be voided.

Europe’s crisis and its (missing) social consequences

Social responses to the financial crisis in Europe in 2008-2012 highlight a paradox. After a decade of intense protest against neoliberal globalisation and the emergence of extensive transnational links among civil society groups – such as Europe’s Social Forums – the explosion of the 2008 crisis proved the activists right. Yet, since the arrival of the crisis mobilisations on European level have been barely visible. Large protest waves have emerged at the *national* level, with very large street marches and strikes – especially in Greece, Portugal and Spain – and defensive campaigns to oppose layoffs and governments' austerity policies. Novel protest phenomena have also emerged – in particular the *subterranean politics* of the *indignados* and 'occupy' groups (see Mary Kaldor's analysis in www.gcsknowledgebase.org) with a new generation of activists learning new modes of protest. What has been dramatically missing in such social responses is a common perspective on contesting European policies. The political culture critical of neoliberalism that had supported global and European civil society activism in the 1999-2007 period appeared ineffective at the very moment when it could have emerged as a credible alternative to the crisis of European economies and politics.

This paradox is the result of two major factors. First, what we are witnessing looks like a *European contention in search of framing*, with mobilisations absorbed by the immediate challenge of resisting *at the national level* the economic and political effects of the European crisis. This is the level where the political process is most structured and visible, where the political system and civil society are ready to *frame* social responses to the crisis in well tested forms – trade unions protests and negotiations about layoffs and unemployment protection; political protests by opposition parties; anti-government protests by radical groups. What these responses are missing is the *European* nature of the crisis and of the political process addressing it; no common *frame* is available for defining this as an issue of European-wide contention, where mobilisation can develop and have an impact on policies.

The second factor is *the lack of a European political space*, with 'visible' power structures and an 'understandable' institutional setting that can provide the context for European mobilisations. The *lack of a European public space* as an arena for common discussion and deliberation on shared problems is a well known weakness of the European construction, and this has certainly influenced the inability of mobilisations to develop a common framing. But what may be more important today is *the lack of a democratic politics* at the European level that could provide an 'entry point' for contestation; European contention appears to be *in search of the very 'site' of politics* where contestation can take place. The 'dispersed' nature of European authority is a clear factor, with power distributed between the European Council, the Commission, and the European Central Bank (ECB). The emphasis on inter-governmental decision making during the crisis has put national governments (apparently) at the centre of the European stage, but they found themselves heavily constrained by supranational European authority – such as the 'independent' ECB – by the rise of German influence on EU policies and asymmetries in inter-governmental processes and by the unchallenged power of finance in key areas.

Is a different Europe (and Italy) possible?

Italy's future is at the cross-roads. On the one hand, Europe (seen from far away) remains more appealing than the miserable show (seen from the inside) of Italian politics in the time of Berlusconi. The wave of populism and criticism against the 'caste' of politicians – left and right – is now a dominant political factor. Polls suggest that 40% of Italians is uncertain on whether to vote and up to 20% have sympathies for the Five Star Movement of Beppe Grillo and its anti-political message. On the other hand, the political dynamics is in flux. Opposition from Europe has explicitly come from the Right, in particular the reactionary-populist-regionalist Northern League (a close ally of Berlusconi), and Berlusconi himself made occasional speeches on how better off Italy outside the euro would be. The Democratic Party has painted itself as the most European political force, but the policies imposed by Europe are hitting hard on its own voters. Moreover, preparations are well under way to build a new centrist political force that could win the next elections as the 'true heir' of Mario Monti's policies, with massive support from European powers and Italy's élite. Monti himself is a strong candidate for being elected President of the Republic just after the next elections.

On the Left and in social movements a strong effort has been made to frame the understanding of the crisis not as a question of a 'yes or no to Europe', but as a question of opposing European policies built on the pillars of neoliberalism and finance. A lively debate on Europe's course has emerged, launched by *Sbilanciamoci!* – a coalition of 50 civil society groups working on economic alternatives (www.sbilanciamoci.info) – and the daily *Il Manifesto*. The discussion has been extended to the European level on the website *opendemocracy.net.*[1] The initiative led to a forum on 'The way out', attended by 800 people in Florence on 9 December 2011. The forum issued a call for a European manifesto, 'Another road for Europe' that was launched by a large number of European intellectuals and activists. On 28 June 2012 'Another road for Europe' organised a Forum at the European Parliament with Europe's civil society groups, trade unions and economists' networks calling on the Parliament's progressive political groups to debate alternative responses to the crisis, centred on the need to control finance, reshape the economy, practice democracy. A final document was produced, calling for measures to reduce financial speculation, reverse austerity policies, launch a green new deal and provide jobs, and revitalise democracy; it argues that:

"Democracy has to be expanded at all levels in Europe; the EU has to be reformed and the concentration of power in the hands of more powerful states that has taken place with the crisis has to be reversed. The aim is to achieve greater citizens' participation, a major role for the European Parliament (EP), and much more meaningful democratic control over key decisions. The next EP elections in 2014 should represent an opportunity for making choices amongst alternative proposals for Europe within and across EU member states.

Facing a risk of collapse, Europe's policies need to change course, and an alliance between civil society, trade unions, social movements and progressive political forces – notably in the EP – is required to lead Europe out of the crisis created by neoliberalism and finance and towards a fully-fledged democracy. Greater European integration is needed, with a parallel European constitutional reform, through a European Convention / Constituent Assembly, transnational lists for the EP elections and direct democracy tools allowing EU citizens to promote new European policies." (The appeal and the final document are at www.anotherroadforeurope.org).

Further initiatives have taken up this political campaign, and a large European civil society gathering marking the 10th anniversary of the first European Social Forum in Florence is organised in Florence on November 8-11, 2012, representing a first major European-wide, bottom-up effort to provide an alternative to Europe's crisis. However, the impact on political forces and institutions has so far been modest. The divide – in Italy as well as in Europe – between social activism and political processes has grown wider. Governments are continuing on policies bound to aggravate the crisis. There is a serious risk that a long European depression could lead to widespread social turmoil, political instability and anti-European attitudes. The dramatic lessons from the Great Depression of the Thirties could return to haunt us all.

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[1] The debate is in R.Rossanda and M. Pianta (eds), *La rotta d'Europa*, downloadable at http://www.sbilanciamoci.info/ebook/
La_rotta_d_Europa_economia, http://www.sbilanciamoci.info/ebook/
La_rotta_d_Europa_politica. English texts are at http://www.opendemocracy.net/freeformtags/
can-europe-make-it.

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(c) Mario Pianta

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