



## PRESS RELEASE

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### **How can we recover lost ground? Fabrizio Zilibotti at the “Forum”**

#### ITALY, REGENERATION ENTRUSTED TO CIVIL SOCIETY

**To recover lost ground Italy needs a new form of protagonism from civil society and new forms of political organisation. Federalism may help but it must be introduced gradually so that it does not cause too much imbalance**

“Italy will 'survive' the crisis thanks to the creativity demonstrated by its small and medium enterprises, but in order to recover lost ground it is necessary for public opinion to take action, creating a new fabric of participation around the popular current that the country is experiencing. It is to be hoped that new political forces will come into play. Federalism is a good thing because it transfers power to civil society, but it must take place gradually. What Italy needs at the moment is the introduction of individually-based fiscal policy: each person should pay on the basis of what they earn. Furthermore generous public subsidies for infant schools and parental leave are also required in order to promote active participation in the employment market, particularly for women. Naturally all this costs money, but it costs much more to keep large proportions of the population out of the labour market”. This is the recipe of Fabrizio Zilibotti, Lecturer in Macroeconomics and Political Economy at the University of Zurich, speaking at the “Forum” coordinated by Pierangelo Giovanetti, Editor of the Adige newspaper, at Buonconsiglio Castle.

“The crisis is serious”, stated Zilibotti “and a reasonable dose of cyclical measures is certainly to be hoped for. However it is not true that the more one spends the better things get. Italy has wasted too many resources running up debt when this was not necessary and now it cannot ignore budget limitations. However it is necessary to see what positive aspects the crisis may bring in the medium term: the destruction of inefficient businesses may create opportunities for new companies, for example, just as it is necessary to seize the opportunity to invest in human capital and other areas and not, as is happening, to cut funds for education, which is absurd. Rationalising and making the school and university systems more efficient is a good thing, but cutting investment in this sector makes no sense at a time when it is necessary to invest in the future”.

“Crises may also be an opportunity for reform, starting with pensions, as Sweden did in the 1990s for example. However, this is not discussed in Italy, where people prefer to talk about the private affairs of politicians”. Is it right to give aid to workers hit by the crisis? “It is right, but defending workers does not necessarily mean defending jobs. A 10% fall in income in one year is not a good thing but it is not a catastrophe either, the problems come when the costs are distributed among citizens in an uneven manner”. In short, for Zilibotti “there is a risk of throwing the baby out with the bath water: market mechanisms have shown themselves capable of creating wealth and disseminating wellbeing, but the idea that this can take place in an institutional and regulatory void is mistaken”.

For Zilibotti, higher education, capacity for innovation, familiarity with computer technology, knowledge of English, competitive markets and job flexibility are the key factors to coming out of the crisis successfully, but Italy is trailing in these areas and reforms are not on the way. Neither centre-right governments nor left-wing governments offer adequate guarantees: the first because they defend certain monopolies and do not believe in liberalisation (see the case of Alitalia); they are motivated by anti-intellectual feelings that negatively condition education and research policy and they carry out popular crusades that produce new rigidity (see the anti-immigration policy). The second did not do much better and appeared to be inert and unimaginative, rigidly defending their positions as regards welfare policy; they do not believe in market flexibility and they do not promote excellence, such as academic excellence for example, due to a distorted vision of fairness.

Zilibotti reached these conclusions following reflection on the origin of the Italian miracle taking place after the Second World War. In the 1950-1991 period per capita income increased in Italy at a rate of 3.8 % a year, whereas from 1991 to 2008 the growth was just 1.2 %. The miracle was made possible by two factors: the high level of savings oriented towards investment and technological progress. Considerable assistance came from the Marshall plan, the possibility of introducing technology already in use elsewhere at low cost, the limited growth in wages in industry (encouraged by the decline of the agricultural sector and internal migration), active industrial policy, the growth of foreign trade and European integration, all things that were strengthened with the establishment of democracy as a shared value starting from the process of founding the Republic. The cost was above all the strong role played by the state in terms of industrial policy, not only in Italy but also in France and Japan, less so in Germany and Nordic countries.

So what has happened in the last twenty years? “We have seen fiscal distortion, uncompetitive markets, excessive regulation and public intervention, incentives ruined by the redistributive excesses of the welfare state and overly rigid employment markets. However today there is no sense in defining institutions as ‘good’ and ‘bad’ in terms of their activities, it is better to talk about appropriate and inappropriate institutions”.