Italy: From Welfare State to Market Economy

Italy is full of contradiction. It lives between two realities: the past and the present.

—Renato Ruggiero, Vice Chairman, Salomon Smith Barney

Italy has a dual economy, a dual political system, and dual politics. It is a result of geography and culture. If you do not think dualistically, you will never understand Italy. Italy is dual at all levels.

—Mario Carlo Ferrario, President, Redifin

Silvio Berlusconi turned off the television set after watching his AC Milan football club win another game that was broadcast on Mediaset, his private television company. It was April 2000, and Berlusconi, the media tycoon-turned-politician, needed to focus his attention on Italy's upcoming general election, scheduled for April 2001. After defeating Prime Minister Massimo D'Alema and his center-left coalition in the regional elections, Berlusconi, the leader of the center-right opposition, was in good position to become the next Prime Minister of Italy. Putting together his campaign platform, Berlusconi was reminded of the numerous performance and institutional problems that plagued Italy and contributed to the slow growth of its economy. In order to stimulate the country's competitiveness, he would need to construct a coherent policy for several problems: the rigid labor market, high unemployment, a large bureaucratic government, the still-high public spending and taxation, and the significant regional differences between the North and the South.[1]

With an ailing economy, Italy had signed the Maastricht Treaty in 1992 and committed to meet the strict convergence requirements that were necessary to join the European Monetary Union (EMU). By 1999, Italy had made great progress toward the improvement of its public finances. It had reduced the budget deficit from -9.6% in 1992 to –3.2% in 1998 and curbed the growth of public debt. Inflation and interest rates had fallen dramatically and the exchange rate had depreciated. By pursuing tight fiscal and monetary policies throughout the nineties, Italy had managed to meet the requirements and join the EMU in May 1998. But its economy had barely grown during the 1990s.

While Italy's successful fiscal and monetary adjustment marked its first step toward European integration, the second step posed a greater challenge. The next phase of Italy's integration required the building of a market economy. In the 1960s, the State had invested heavily in the nation's industrial and economic sectors. Although a massive privatization program had been launched in 1992, there was still little competition in the utilities, wired telecommunications, steel and transportation sectors of the economy. Italy's large bureaucratic government made it difficult to pass labor, tax, and other market-oriented reforms. Economic and cultural differences between Italy's North and South regions hindered the development of a market economy. In Berlusconi's opinion, Italy's slow economic growth was "principally attributable to political and institutional problems, to the long and unfinished transition from the First to the Second Republic, and to the permanence of the government of a still Statist left."[2]

As he outlined his campaign goals, Berlusconi was confident that he could build a strong center-right coalition that would lead Italy through the next stage of European integration. "The strategy that Italy should adopt to accelerate economic growth can be summed up in one expression: *a liberal revolution,*" he explained. "We need a government of Polo that, on the foundation of its own liberal principles, puts into

Research Associate Rebecca Evans prepared this case under the supervision of Professor Richard H. K.Vietor as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

effect in Italy the recipes adopted by Reagan in the United States, by Thatcher in the United Kingdom, and by Aznar in Spain."[3] In his mind, three things were clear: taxes had to be cut; the state needed restructuring; and new rules must be created for the labor market. Still, he wondered, would these reforms be politically feasible? And would they be enough to stimulate the growth of Italy's economy?

Country and Culture

Italy occupies a central position in the Northern Mediterranean, which allows for easy access to Europe, Northern Africa, and the Middle East [**Exhibit 1**.] The boot-shaped peninsula, located in Southern Europe, has an area of 301,000 square kilometers. Northern Italy shares its borders with France, Switzerland, Austria, and Slovenia. Italy is home to the Mediterranean islands of Sardinia and Sicily as well as two independent states: Vatican City and the Republic of San Marino.

Poor in natural resources, Italy's landscape is dominated by mountains and rugged hills, with some plains and coastal lowlands. Only 31% of the terrain is composed of arable land.[4] The Po Valley in the North is the country's most fertile region. The climate is predominantly Mediterranean, with Alpine weather in the far North and a hot, dry climate in the deep South.

Italy is divided into two main socioeconomic regions: the North-Center and the South. The North-Center is the industrial heart of the country. This region boasts low unemployment rates and a well-built infrastructure. The economy comprises a few large corporations and thousands of small to medium, family-owned companies which produce and export manufactured goods. The South, also known as the *Mezzogiorno*, suffers from crime, high unemployment, and a poor infrastructure. The State still maintains a large presence in this region; state enterprises, which have recently undergone privatization, continue to dominate the economy. Most of Italy's agricultural products are grown in the South.

Italy's population is relatively homogeneous. About 98% of the population is Italian, and 99% of the nation is Roman Catholic.[5] The majority of the people speak Italian, the official language. Italians have very strong family ties. Most children do not move out of their parents' homes until their late twenties or early thirties. When they finally leave home, it is usually because of marriage, and even then, most couples will move within one kilometer of one of their parents' households.[6] Because Italians are bound by their roots, few are willing to relocate even when offered higher paying jobs. "Many people don't want to move because of regional differences," explains Kristien Michoel of NOMISMA, "They fear leaving the safety of their local region. This is a cultural thing."[7]

Population growth In 1998, Italy had a total population of 57.4 million (**Exhibit 2**). With 200 people per square kilometer, Italy had the fifth-highest population density in Europe.[8] However, figures showed that Italy had one of the lowest birth rates in the world. It was forecast that Italy would have a negative population growth rate within the first five years of the new millenium. Professor Dino Piero Giarda, the Undersecretary of State at the Treasury Ministry, acknowledged that these figures had serious implications for Italy's future, "The population is not growing. It is dreadful. A country that stops making children shows a loss of hope for the future. Italians are becoming shortsighted; they have stopped looking to the future. How is this country going to grow if there is no population growth?"[9]

Italy's rapidly aging population had serious implications for unfunded pensions; thus pension reform was vital. Istat, Italy's national statistical institute, predicted that by 2010, the population aged 57 and above would be equal to 61% of the population between 20 and 56.[10] Thus pension expenditures, and therefore contributions, would need to rise dramatically over the next 30 years.

Immigration In recent years, Italy's immigration rate, especially from non-European countries, had grown substantially. In 1999, there were 1.4m immigrants in Italy, of which only 900,000 were legal.[11] Around 85% of these immigrants came from Morocco, the former Yugoslavia, Tunisia, Albania, Egypt, Ethiopia, and the Philippines. Immigration legislation was still a controversial issue. Although tighter restrictions on non-EU immigration had been passed in 1995, Italy's large Adriatic border was difficult to police; many immigrants disappeared into the "black hole of the Southern economy."[12]

Income distribution There were three distinct shifts in income inequality during Italy's post-war era. Income inequality remained stable during the 1950s and 1960s. In the 1970s, households' disposable income fell sharply but rebounded in the 1980s and fluctuated around a flattened trend up through the early 1990s (**Exhibit 3a**). In 1994, the top decile held 22.9% of post-tax household income while the bottom decile had 2.4%[13] (**Exhibit 3b**).

Organized crime Italy suffered from a high rate of corruption. Italian organized crime was concentrated in the South with the Mafia in Sicily, the Camorra in Naples, and the 'Ndrangheta in Calabria. These gangs took advantage of the South's high unemployment rate and recruited workers, including young children, to participate in the drug-trade and other illicit enterprises. The Mafia's use of violence and intimidation had discouraged legitimate investment in the South. For many years, some politicians had tolerated and even colluded with organized crime. But after the corruption investigations of 1992, the government began enforcing strict anti-Mafia measures.[14]

The Path to Unification

In the eighth century B.C., Greeks had settled in the southern tip of Italy. This advanced civilization introduced new forms of art and architecture and developed a strong agricultural-based economy. At the same time, the Etruscans moved into central Italy, where they established a sophisticated community. In the North, the Gauls of Celtic origin migrated from the Alps into the Po Valley.

Rome was founded on the banks of the Tiber River in the middle of the eighth century B.C. During the sixth century B.C., the powerful Roman civilization conquered the Etruscans and established the Roman Republic. The formation of the Republic marked an important social transformation in which the plebeians gained political power, and the first written laws were recorded. In the fifth and fourth centuries B.C., the Roman Republic expanded its empire into southern Italy. The expansion inevitably led to a series of battles—the Punic Wars—between Rome and Carthage. In 146 B.C., Rome defeated Carthage and became the elite Mediterranean military power.

In the fifth century A.D., the Western Roman Empire, weakened by political instability and poor economic conditions, collapsed after a series of foreign invasions. Political unity was lost, and in the centuries that followed, Italy became "an oft-changing succession of small states, principalities, and kingdoms which fought among themselves and were subject to ambitions of foreign powers."[15] The influence of the Christian Church grew during the tumultuous years of the early medieval period. Under Pope Gregory the Great (590-684), the Church assumed greater political and administrative powers as it acquired more territory throughout central Italy.

The Renaissance of the fourteenth century brought Italy out of the Middle Ages. Economic prosperity in Italy's north and central regions fueled the rebirth of classical art, literature, and science. The textile industry flourished in Florence and Milan, while Venice and Genoa maintained control of the spice trade. France and Spain competed for territorial control of Italy during the sixteenth century. Spain controlled most of southern Italy, while France held onto some northern pockets. Only the Papal States and Venice remained independent during this time. With campaigns in 1796 and 1800, Napoleon conquered the entire Italian peninsula and established a republic.

After Napoleon's fall, the Austrians assumed control of Italy, but the seeds of revolution had already been planted. The intellectuals and the middle class desired more democratic institutions. In 1848, Giuseppe Mazzini and Giuseppe Garibaldi, inspired by the same dream of unification, led a revolution against the Austrians and established the Roman Republic and the Republic of San Marco. Unification was not achieved until 1860, when the Bourbons and the Papal States, who had been opposed to unification, were conquered.

From Fascism to Democracy

In 1861, Italy united under a constitutional monarchy with a parliamentary government. Victor Emmanuel II of the House of Savoy was crowned the first King of Italy. Rome did not join the new kingdom until 1870, when the French, under Napoleon III, withdrew from the city. Despite the façade of a unified nation, Italy remained deeply fragmented. Class distinctions, especially in the South, continued to divide Italy, as the demands of the peasants and working class conflicted with those of big landowners and industrialists. The Church viewed the new State as a challenge to the Vatican's authority. The

Vatican issued a *non expedit* decree which forbade Catholics and their religious leaders from participating in national elections. The Church's opposition to secularization, and its refusal to recognize the State, "was to remain an open sore that delayed and complicated the development of popular political participation in Italy."[16]

In the years following unification, the House of Savoy maintained a rigid monarchy until the end of the First World War in 1918. Italy fought the War on the side of the Allies. Although the victory expanded Italy's northeastern borders, it left the Italian economy in ruins. After a string of liberal governments failed to restore order to the suffering economy, the King invited Benito Mussolini, the leader of the National Fascist Party (Partito Nazionale Fascista), to form a government. Having passed a law which increased the powers of the head of government, Mussolini abolished all other political parties and established a Fascist dictatorship in 1926.[17] Although Fascism took control of nearly every arm of the State, the Church prevented the Fascists from being fully totalitarian. Mussolini signed the Concordant of 1929, a compromise agreement which pronounced that the Church and the State were to be both "independent and sovereign."[18]

In 1940, Mussolini's ties with Hitler brought Italy into the Second World War on the German side. On July 10, 1943, the Allies invaded Sicily and triggered an anti-fascist movement, the Resistance, led by the Partito D'Azione (which broke up soon after liberation), the Communists (who later formed the Partito Comunista Italiano, PCI), the Partito Socialista Italiano (Socialist Party, PSI), and the Partito Populare Italiano (i.e., the Christian Democrat faction which became the Democrazia Cristiana, DC). Following the invasion, the King replaced Mussolini with Marshall Pietro Badoglio, who signed an armistice with the Allies on September 2, 1943. In 1945, the Germans surrendered and Mussolini was shot and killed.

On June 2, 1946, Italy held its first popular referendum in which the people voted to replace the monarchy with a democratic republic. The election results reaffirmed the existence of a North-South division; the majority of the North-Center voted for the republic, while the South voted in favor of the monarchy.[19] A constituent assembly composed of members from the DC, PSI, and PCI was elected to make plans for the new republic. On January 1, 1948, the Constitution, a compromise between Catholic and Communist ambition, gained approval. The new Constitution outlined the framework for a bicameral parliamentary system.

The Italian Political System

Constitution The 1948 constitution established a democratic system composed of the executive, the judiciary, and a bicameral parliament. With the fear of authoritarianism fresh in their minds, Italians drafted a constitution that limited the powers of the executive.

The president of the Republic was elected for a seven-year term by an electoral college composed of parliament and 58 regional delegates. The president's powers included the promulgation of all government decrees and laws, any of which could be referred back to parliament if deemed unconstitutional. The president determined the dates for general elections and referendums and appointed the prime minister and one of the Constitutional Court judges.

The executive branch was composed of a Council of Ministers headed by the president of the Council—the prime minister. The prime minister and the Council of Ministers had to maintain a vote of confidence in both houses of parliament. The executive could initiate legislation and introduce decree-laws and legislative decrees.

The judicial system was based on a civil law system derived from the Savoia monarchy, with influence from ecclesiastical law. The Constitutional Court consisted of 15 judges. Judicial appointments were made by the president, parliament, and the other ordinary and administrative supreme courts.

The Senate and the Chamber of Deputies comprised the two houses of parliament—the legislative arm of the government. The two houses shared powers equally. Bills had to win a majority in both houses before they could become laws. There were 326 seats in the Senate, of which 315 were elected.

The other seats were held by former presidents and a few senators that had been elected for life. The Chamber of Deputies had 630 elected members. Both houses were elected for five years.

Electoral system Members of parliament were originally elected by a proportional system. This facilitated a multi-party system, because any political party, no matter how small, had a chance of winning seats in parliament. The multi-party system often led to coalition governments, because no single party could capture a majority of seats. Small parties became very influential because they could join a coalition and ensure a parliamentary majority. At the same time, small parties could withdraw from a coalition and bring about the collapse of the government. This "system of shifting political alliances," known as *transformismo*, contributed to the instability of the Italian political system, which was plagued by numerous short-lived governments.[20]

In 1993, electoral reforms were adopted in an effort to bring about a more stable political system. The new system was based on majority rule. In each region, 75% of the members in both houses of parliament were chosen through a first-past-the-post system (i.e., whoever gets the most votes gets elected). The remaining 25% were elected by proportional representation from party lists. The aim of this system was to force the "formation of alliances or coalitions to fight the single member constituency elections and in theory…create pressure for a simplification of the multi-party system and movement towards a two-party system."[21]

Regional and local government The 1948 constitution gave special autonomous status to five Italian regions: Sicily, Sardinia, Valle d'Aosta, Trentino-Alto Adige, and Friuli-Venezia-Giulia. In 1970, efforts to decentralize the State led to the establishment of regional councils in an additional 15 regions. The local government reforms of 1990 increased the role of provinces and town councils.

Referendums Referendums were a major aspect of political life in Italy. In 1974, the public was granted the right to hold a referendum in order to annul legislation that had been passed by parliament. A referendum required a petition with 500,000 or more signatures and couldn't be used to amend the state budget, international treaties, or judicial amnesties. Referendums had been used to repeal an anti-divorce law in 1970 and to legalize abortion in 1981.

The Rise of the Christian Democrats

Despite massive destruction of its infrastructure, Italy rebounded from World War II and moved quickly through the restoration period. The 1950s gave birth to the "Italian miracle," an industrial boom that brought prosperity to the northern and central regions. The industrial revolution shifted Italy's economic focus from agriculture to manufacturing. Large funds were not available to support big capital concerns such as energy, steel, and chemicals. Instead, family-owned businesses became the mainstay of the Italian economy. Entrepreneurs established small companies which focused on textiles, machinery, and food processing. These businesses took advantage of Italy's proximity to the water by exporting goods around the world.[22]

In an attempt to bridge the economic gap between the North and South, the State established the Cassa per il Mezzogiorno (Funds for the Development of the South). These funds were dedicated to the improvement of the South's infrastructure, as well as its economic and agricultural development. The success of this program was spoiled by a great migration of Southern workers. Although most Italians were reluctant to move, the depressed conditions of the South forced many struggling workers to flee to the North where jobs waited for them. The labor flight left the Southern economy in poor shape and widened the gap between the two regions.

After the War, the Christian Democrat Party (DC) rose to power after gaining its first parliamentary majority in 1945. The DC was the predecessor of the Italian Popular Party (Partito Popolare Italiano, PPI), the first party to gain "tacit approval" from the Church.[23] Fears of becoming marginalized had led the Church to acknowledge its support of the PPI's socialist goals. The Church shared their belief that wealth should be spread equally among the people. In the eyes of the Church, excessive wealth was deemed ungodly. This Catholic attitude influenced the politics of the DC during its 50-year dominance of the Italian government.

As the Cold War unfolded in Europe, the DC also gained the support of the United States. In Italy, the Communist Party (PCI) had emerged as the most powerful communist party in the West. Fearing that the communists would take control of Italy, the U.S. poured money into the DC party and threatened to withdraw its financial support if the PCI were to enter the government. [24]

The post-war governments of the centrist DC, led by Alcide de Gasperi, followed policies of reconstruction and economic development which included strict anti-inflation measures and the relaunching of the Institute for the Industrial Reconstruction (IRI), a state-owned holding company which purchased shares in the steel, iron, and other industries.[25] Italy's industrial success during this period helped to build the country's international reputation. On March 25, 1957, Italy signed the Treaty of Rome and became one of the six founding members of the European Economic Community (EEC). The Treaty aimed to remove all internal tariffs and establish a common market in goods and services in just 10 years.

Italy's industrial boom continued into the early 1960s. With one of the fastest-growing economies in the world, Italy became a leading international exporter of manufactured goods. However, growth slowed in 1964, and Italy entered a recession. The Socialist Party (PSI) formed a coalition government with the Christian Democrats and launched a large nationalist movement. The opening of the Italian government to the left had important socioeconomic consequences. This coalition, led by the DC's Aldo Moro, aimed to improve economic growth "by nationalizing certain corporations in the electrical and chemical sectors, including many public services, and starting a program for far-reaching reforms and modernization of the Italian administrative, fiscal, and financial structures."[26]

In the South, the State attempted to bridge the economic gap by building "cathedrals in the desert." Taking advantage of cheap labor costs, state enterprises multiplied in the South. Large plants were constructed for companies in the transportation, telecommunications, utilities, steel, coal, and petrochemical industries. The system created ENI, ENEL, SIP (Telecom Italia), and other state-owned monopolies. Over 70% of the industry in the South was in the hands of the State. "The positive results of state-owned enterprises were the building up of high-tech know-how and the improvement of the South's infrastructure," explained Fernando Napolitano, vice president of Booz-Allen Hamilton Italia. "However, the negative results included the establishment of artificial jobs (not market driven) and a lack of focus on western management styles."[27]

Near the end of the 1960s, inflation rates and social tensions escalated. Violent protests erupted across the country as trade unions and university students grew restless with the political establishment. The increasing social unrest was reflected in the election results of 1968. The PCI and extreme leftist parties gained a larger share of the popular vote, and it became harder for the DC to form strong coalitions. Pressure from the left helped the early 1970s to go "down in history as the years when Italy enacted some of the world's most advanced social legislation."[28]

The Italian economy, which imported 85% of its energy, floundered in 1973 when oil prices skyrocketed. The energy crisis sent inflation rates soaring to 20% per year, and Italy entered yet another recession.[29] As wages increased, companies were forced to make cutbacks and the nation's unemployment rate rose dramatically. The economic crisis was compounded by an increase in political corruption. Organized crime helped to make the *anni di piombo*, years of lead, a time of extreme right and especially left wing terrorism led by the communist Red Brigades (Brigate Rosse), who intended to destabilize the country.

The Christian Democrats struggled to restore order to the economy and the government. In 1976, the DC, under the leadership of Moro, was forced to invite the PCI to support a government of national unity. The *compromesso storico*, historic compromise, between the Communists and the Christian Democrats marked the first moment of cooperation between the two political groups. The PCI agreed not to vote against the government. However, this peaceful union was short-lived. On March 16, 1978, Moro, president of the DC, was kidnapped and murdered by the Red Brigades.

Despite the political unrest at home, Italy continued to make progress toward its goal of European integration. In 1979, Italy became one of eight European states to form the European Monetary System

(EMS). The new system of "fixed but adjustable" exchange rates aimed to protect intra-European trade from the effects of floating exchange rates.

The 1980s brought renewed stability to Italy's government and economy. The PSI experienced a comeback in the early 1980s. In the 1983 general election, the DC's share of the popular vote dropped from 38.3% to 32.9%.[30] With a plan to increase the effectiveness of the government through institutional reforms, Bettino Craxi, the leader of the PSI, became the new prime minister of Italy. Craxi maintained power for the next four years, during which he passed important anti-inflation measures which helped to stabilize the economy. During the mid-eighties, productivity growth and an increase in foreign investments revitalized Italy's export-driven economy. The country's second "economic miracle" was fueled by an army of small to medium-sized companies which produced and exported clothing, leather products, shoes, furniture, textiles, agricultural machinery, machine tools, and jewelry.

In 1986, Italy took another major step toward European unification when it signed the Single European Act (SEA). The SEA amended the Treaty of Rome and outlined specific measures to liberalize the free movement of goods, services, and people within the European Community (EC). In addition, the SEA made a commitment to complete the internal market by December 31, 1992. As the end of the decade approached, Italians were enjoying a higher standard of living. In 1986, Italy's GDP per capita was 9% greater than Great Britain. It was becoming clear to the world that "the Italians [were] doing something right, and doing it despite a political and administrative system that [remained] the least adapted to the requirements of modern, efficient government in western Europe."[31]

Communism falls The collapse of the Berlin Wall in 1989 rocked the foundation of the Italian political system. Democracy and capitalism triumphed after the fall of the Eastern European communist block. Since its first days as a republic, Italy's political system had been built around the fear of Soviet communism. Once the threat to democracy had been removed, the need for a strong anticommunist government slipped away. The political dominance of the Christian Democrats crumbled as people realized that the "automatic collusion in the corrupt practices of the DC and its coalition partners could no longer be perceived as a requirement for the survival of liberal democracy in Italy."[32] Italy's economy also felt the impact of the collapse of communism. For years, the Soviet Union had been an important trade partner, especially in Emilia-Romagna and Italy's other communist "red regions." The Soviets had also been a major contributor to the PCI. As the rest of the world celebrated the end of communism, Italy scrambled to stabilize its shaky political system.

Economic Gloom in the Early 1990s

The Italian economy presented a paradox. On the surface, the economy was booming due to increased productivity and surging exports. But the façade of economic prosperity hid the real truth about Italy's sick macroeconomy, which "continued to be plagued by high unemployment, high interest rates, high labor costs, high inflation, vast public expenditures, and a staggering public deficit." [33] Italy's large fiscal imbalances were the legacy of inefficient economic policies, the high cost of the welfare system, and years of political corruption. In 1985, the budget deficit rose to 12% of GDP and then leveled off to about 10% of GDP for the remainder of the decade.[34] Growth deteriorated during the second half of the 1980s, and Italy's GDP growth differential in relation to the other EU nations became negative for the first time.[35] Meanwhile, the productivity gap between Italy's North and South regions continued to expand.

The gloomy state of Italy's economy continued into the early 1990s. In 1991 and 1992, Italy ran trade and current account deficits (**Exhibit 5**). Large budget deficits and a growing public debt drew the attention of Italy's skeptical European neighbors, who questioned Italy's commitment to market integration. As growth declined, the growth gap between Italy and the rest of the EU widened. Inflation rates and interest rates remained high, and industries struggled to adapt to rising wages. The system of wage indexation and bargaining had made the labor market very rigid. In 1992, the budget deficit equaled 9.6% of GDP, the public sector debt had ballooned to 124.9% of GDP, and GDP growth had slowed to 0.6% (**Exhibit 6**).

The Dual Economy

With the sixth-largest economy in the world, Italy specialized in manufacturing. Its dual economy was dominated by two tiers of private companies. The first tier consisted of a few large family-owned companies. Many of the families "exerted control through holding companies and cross shareholdings with industrial and financial allies."[36] Some of the most influential family businesses were the Agnelli family's FIAT, Italy's largest conglomerate that produced cars, tractors, steel, machine tools, and airplane engines; Pirelli, a tire company that manufactured industrial rubber products and telecoms cables; and Olivetti, a computer and telecommunications business.[37] Other conglomerates were run by the Benetton, Romiti, Marzotto, Del Vecchio, Ferrero, and Gardini families. For more than 50 years, the powerful Mediobanca, a private merchant bank, had financed the "narrow cartel of northern entrepreneurs."[38] (See **Exhibit 10**.) Close ties to the State had helped FIAT and other companies secure large contracts through public procurement. More recently, the family conglomerates had increased their international competitiveness through mergers and increased productivity. [39]

The second tier of Italy's dual economy was made up of clusters of family-owned small and medium-sized companies (SMEs). These *distretti,* industrial districts, were described as "geographic concentrations of interconnected firms, specialized suppliers, service providers, firms in related industries and associated institutions…[that] all contribute to a system that produces the goods that are characteristic of the district."[40] For example, the leather footwear industry in Verona spawned a cluster of interrelated businesses (i.e., tanneries, footwear machinery, leather clothing, athletic footwear, etc.) whose proximity facilitated the sharing of knowledge and resources. Other examples of clusters included ceramic tiles in Sassuolo, silk in Como, textiles in Prato, factory automation equipment in Turin, and packaging machinery in Bologna (**Exhibit 1**). While the industrial districts were largely concentrated in Italy's North-Center, a few successful clusters had developed in the South.

SMEs formed the backbone of the Italian economy. Small firms thrived in Italy where 98% of manufacturing firms had fewer than 50 workers, and 83% had less than 10 employees. SMEs accounted for more than a third of Italy's export revenues. These firms were an important source of job creation; they provided over two million jobs in the manufacturing sector.[41] Italy had the highest percentage of SMEs among the EU countries. Through the success of its clusters, Italy had "shown that in order to have a highly developed economy, it [was] not necessarily true that it must be based on large firms."[42]

Several characteristics seemed essential to the development of a strong cluster: geographic concentration, close family ties, domestic rivalry, specialization, and cooperation and knowledge transfer between firms and suppliers. In *The Competitive Advantage of Nations,* Michael E. Porter explains that in Italy, "constant competitive advantage was present, due to sophisticated and demanding local buyers, strong and unique distribution channels, and intense rivalry among local firms."[43] Families performed an important role of educating young workers. "The real uniqueness of Italy, however, [was] the out-of-school learning process in particular industries," writes Porter, "Highly specialized knowledge and skills [were] passed within families and from generation to generation."[44] Specialization was a crucial element of the districts, because it allowed small firms to focus their limited resources on what they did best.[45] In addition, specialization helped reduce quality-control problems. Gucci's network of specialized suppliers contributed to the success of its leather handbag business. Gucci, part of the leather goods cluster in the Tuscany region, had about 160 hardware, raw material, and other small suppliers that were located within a 10km radius of its Florence plant. This system of production provided maximum flexibility, in that Gucci could let demand dictate how much work was outsourced to its suppliers.[46]

The packaging machinery cluster in Bologna offered a good example of cooperation and knowledge transfer between firms and suppliers. Nearly 75% of the packaging machinery industry was located near Bologna in the industrial Emilia-Romagna region. The cluster included 20 medium-sized firms with fewer than 100 employees and about 100 smaller firms. Many of the SMEs in this district specialized in different types of packaging machinery. Industria Macchine Automatiche S.p.A. (IMA) was a world leader in tea bagging and pharmaceutical packaging machines. Although IMA did not collaborate directly with its competitors, its suppliers passed along innovative ideas. "Our network of over 200 suppliers is extremely important for the transfer of information," said Giuseppe Bussolari, director of

IMA's Tea Division. "Our suppliers usually work with three or more different companies, and we learn about new techniques from them. "[47]

Bologna's packaging cluster was supported by numerous industry associations, state-funded agencies, local banks, and cooperative programs (**Exhibit 13**). These service centers helped "SMEs by offering services that the internal resources of smaller firms [had] trouble handling."[48] The Instituto Aldini Valeriani in Bologna trained mechanical engineers and other students for jobs in the packaging cluster. Porter notes the importance of trade associations in the Prato's textile cluster: "Through five industry associations in different but related fields, there [was] joint research on new technologies, construction of a central depurator (purifier), cooperation in the purchases of services, raw materials and equipment, operation of a general warehouse, and an ongoing effort to influence local infrastructure."[49]

Operation "Clean Hands"

The corruption investigations of 1992, known as *Tangentopoli,* brought about the demise of the coalition led by the Christian Democrats. Operation *Mani Pulite* (Clean Hands) uncovered a web of corruption between political leaders, local authorities, and major corporations. Italian magistrates shined the light on an "institutionalized system of bribes" through which profits from state-owned enterprises had flowed directly into the hands of political officials.[50] Many of Italy's large private businesses had given money to the ruling political parties in exchange for public contracts. With the majority of Italy's ruling political class under investigation, paralysis spread through the country. "From the smallest town to the biggest city, from the peripheral public officials to the general managers of the Ministries, everyone closed down, looking to evade responsibility," observed Berlusconi.[51]

The corruption scandals led to the death of the First Republic, a 50-year span of centrist governments dominated by the DC. Although many outsiders had interpreted the frequent turnover of governments as a sign of instability, the DC's continuous control of parliament throughout the post-war period had lent a high degree of stability to the Italian political system. Mario Carlo Ferrario, president of Redifin, explained, "There were new governments each year, but it was the most stable country in Europe, because the same coalition was always in power with the same people." [52]

Disillusioned voters attempted to simplify the multi-party system by voting for electoral reform in the 1993 referendum. The new first-past-the-post electoral system forced the creation of two opposing poles. In the elections of the 1990s, voters chose between the center-right and the center-left coalitions. Unfortunately, the reforms only complicated Italian political life. In Berlusconi's opinion, "The consequence [of the new system] was further political fragmentation which rendered it impossible to achieve a unified direction in the economic action of the government in power."[53] Although the reforms had succeeded in creating two separate coalitions, there was still an abundance of small bickering parties that slowed legislation and could easily disrupt a government's stability by defecting from the ruling coalition.

The Maastricht March to Monetary Union

In 1992, Italy and the eleven other EC nations signed the Maastricht Treaty. The Treaty established convergence requirements and set a timetable for achieving monetary union by January 1, 1997, or January 1, 1999, at the latest. The criteria for membership in the European Monetary Union (EMU) included a budget deficit less than or equal to 3% of GDP; a public debt below 60% of GDP or declining at a satisfactory pace; an inflation rate within two percentage points of the average of the three EC nations with the lowest rates; long-term interest rates within two percentage points of the average of the three countries with the lowest rates; and a currency that had not been devalued in the previous two years and that had remained within a normal currency band.[54] The Maastricht commitments challenged Italy to address its huge fiscal imbalances.

Amato's reforms After the fall of the First Republic, Giuliano Amato, a leader of the PSI and a former Treasury minister, formed Italy's first government of *tecnici* or non-party academics, managers, and senior civil servants[55] (**Exhibit 12**). Although his government lasted for less than a year (June 1992-April 1993), Amato introduced major economic and institutional reforms which put Italy on course to meet the Maastricht deadlines. Once in office, Amato quickly passed Italy's most austere post-war budget. The new budget included large tax and excise increases as well as a 0.6% levy on money held in bank deposits and on residential real estate.[56] Amato initiated pension reform which increased the retirement age of male and female workers covered by pension plans to 65 years. The Treasury reduced future expenditures by ending its support of the universal healthcare system. Under Amato's leadership, a historic agreement between unions and employers led to the abolishment of the inflationary system of wage indexation. The Amato government also passed important anti-Mafia measures.[57]

Privatization One of Amato's biggest achievements was the launch of an aggressive privatization program which abolished the Ministry for State Owned Participated Enterprises and slowly opened Italy to competition. Almost overnight, Amato converted the four largest state holding companies --Instituto per la Ricostruzione Industriale (IRI), Ente Nazionale Idrocarburi (ENI), Istituto Nazionale delle Assicurazioni (INA), and Ente Nazionale per l'Energia Elettrica (ENEL)-- into joint-stock companies that were placed under the control of the Treasury. Amato's plan aimed to reduce the budget deficit by raising L27trn through privatizations of the holding companies over the 1993-1995 period[58] (**Exhibit 16**).

Devaluation Due to high inflation and interest rates, the lira was forced out of the exchange rate mechanism (ERM) in September 1992, which led to a 30% devaluation of the lira. Although the devaluation boosted Italy's exports, it was soon followed by a recession. Frustrated with the weak economy, labor blamed Amato and his rigid economic programs. After the four party leaders of Amato's coalition were charged with bribery, Amato resigned as prime minister.

Ciampi's government Carlo Azeglio Ciampi, the governor of the central bank and a nonpolitician, formed a "caretaker government" of tecnici.[59] Ciampi's government continued Amato's program of institutional reform. The Incomes Policy Agreement of July 1993 established a framework for wage negotiations. "In the 1970s and 1980s, Italy had dreamed of a Politica de Concertazione where government, unions, and businessmen would sit around the same table and decide how much to increase salaries for that year. The unions finally acquired the right to participate in this way in 1993 with Ciampi," explained historian and former Ambassador Sergio Romano.[60] The new income agreement kept wages within the projected inflation rate; businesses were allowed to introduce profit-related and performance-related pay; and companies gained flexibility with regard to starting salaries and temporary labor agreements. The Ciampi government led Italy through the privatization of IRI's two commercial banks. In December 1993, Credito Italiano floated on the stock exchange, and Banca Commerciale Italia followed in March 1994. Ciampi also initiated the privatization of the smaller state-owned companies in the steel, food-processing, and chemical sectors.[61]

Berlusconi's new party In January 1994, Silvio Berlusconi, a powerful businessman and owner of Mediaset, Italy's private television network, shocked the country when he announced that he had formed a new conservative party, Forza Italia, and was running for prime minister. "We found ourselves with the elimination of the Christian Democrats and the possibility of the Communists coming into the government. I tried to reconcile the two opposing groups and attempted to get a new parliamentary force together. I tried to work with the party on the right, but age-old hatred and animism did not make it possible to come to an agreement," said Berlusconi. "I was then the only Italian person with the necessary credibility and the support of the public. I came to the decision that I would become a political figure, and I set up the new party in two months."[62]

Three different alliances emerged in the March 1994 general elections: the right-wing Freedom Pole composed of Forza Italia, the separatist Lega Nord (Northern League) and the Alleanza Nazionale (National Alliance, AN); the Center Pole made up of the Pact for Italy and the Italian Popular Party (PPI, the former Christian Democrats); and the left-wing Progressive Pole made up of the Democratic Party of the Left (PDS), the Communist Refoundation, the Greens, and the anti-Mafia La Rete.[63] Berlusconi's dynamic personality and large media presence attracted voters, who were encouraged by his promise to lower taxes, increase jobs, and open Italy to competition. In May 1994, the Freedom Pole alliance formed a coalition government, and Berlusconi was elected Prime Minister.

Berlusconi's critics accused him of a conflict of interest between his ownership of the Fininvest holding company and his role of prime minister. Berlusconi's business empire included three private television networks, publishing houses, supermarket chains, and insurance companies. Opponents suspected that Berlusconi had entered politics in order to rescue Fininvest, which had an estimated debt of L6,000bn in 1993.[64] During his brief prime ministership, Berlusconi battled with the judiciary over the Clean Hands investigators' accusations that Berlusconi had been involved in bribery and corruption. In November 1994, he was brought under investigation concerning bribes that Fininvest companies had paid to the tax police.[65]

Despite strong internal divisions, Berlusconi's short-lived government reduced public sector spending and raised the GDP in the seven months before it fell on the issue of pension reform. The shaky alliance between the numerous coalition parties reflected the shortcomings of the first-past-the-post system which still allowed 25% of parliament to be elected through proportional representation. In December 1994, the Northern League joined a parliamentary vote of no-confidence, which led to the collapse of the coalition and Berlusconi's resignation.

Prodi's leadership In January 1995, Lamberto Dini, the Treasury minister, formed a temporary government of tecnici. A year later, a general election was called and two distinct coalitions emerged: the center-left Ulivo or Olive Tree and the center-right Polo per le Liberta or Freedom Pole. Prodi, an economics professor and former head of IRI, had founded the Olive Tree alliance which was composed of the PDS, Communist Refoundation, PPI, Greens, Pact for Italy, and 11 smaller parties. In the election, the Olive Tree coalition defeated the Freedom Pole, and Prodi became Prime Minister in May 1996. For the first time in Italy's history, a center-left alliance, composed of many former communists, ruled the government.

In his three years as prime minister, Prodi passed tight budgetary measures in order to prepare Italy for its entrance into the EMU. The Prodi government continued to open Italy to competition by further reducing state holdings in ENI and privatizing Telecom Italia in 1997. "From 1996 to 1998, there was an excellent period with Prodi and a clear mission to enter the Euro club," said Umberto de Julio, head of Corporate Strategy at Telecom Italia.[66] As a result of budget cuts and increased tax revenue, Italy's budget deficit fell to 3.7% of GDP in 1997, just inside the limits of the Maastrict treaty. With a reduced deficit and a declining public debt, Italy was accepted into the EMU in May 1998. On January 1, 1999, exchange rates were locked, monetary policy fell under the control of the European Central Bank (ECB), and the euro was adopted as the single currency.

The Slow Growth of the Economy

Although Italy had cleaned up its messy public finances, it continued to grow slowly. GDP growth had fallen from 1.5% in 1997 to 1.3% in 1998. Estimates for 1999 suggested that GDP growth had slipped to 1.2% and the growth gap between Italy and the other EU countries had widened (**Exhibit 10**). Italy's adjustment to the EMU had contributed to the slow growth of its economy. A slowdown in world markets, especially in Asia, had led to a decrease in exports which further hampered Italy's growth. While these temporary factors had affected short-term growth, deeply rooted performance and institutional problems threatened Italy's long-term growth potential.

Foreign Investment Throughout the 1990s, outward direct investment was substantially greater than inward direct investment. Italy's inward investment flows were consistently below those of the other EU nations.[67] Poor infrastructure, low labor productivity levels and the fear of organized crime discouraged companies from investing in the South. Elio Catania, CEO of IBM Italia, explained why Italy had difficulty attracting foreign investment: "Italy suffers from a stereotype. People do not invest in Italy because of its negative image. Italy is considered to be a closed country: there is a lack of flexibility; capital is not efficient; the infrastructure is not efficient; and there is corruption in some areas. But all this is beginning to change."[68] There were also cultural explanations for Italy's FDI imbalance. "The culture sees foreign investment as a threat to the existing system, because they will have to apply the market economy and work harder. American or German investment will force market standards on Italian business," reasoned Renato Ruggiero, vice chairman, Salomon Smith Barney.[69]

Taxation Corporate taxes were very high in Italy. Taxes on corporate income ranged from 46% to 54% and were higher than most OECD nations[70] (**Exhibit 14**). Many Italians believed that the high level of taxation was a legacy of the *Catto-Comunisti* (Catholic-Communist) mentality. "In Italy, there are two religions. The Catholics and the Communists both think that if you own property it is a sin. There is envy for the rich," explained Fedele Confalonieri, president of Mediaset.[71] Tax revenues were used to pay interest on Italy's huge public debt. "My theory is that the amount of public debt is equal to the tax evasion of the last 10 years. I would say that we lose about L250trn in tax evasion each year. If people paid taxes, we would have a surplus," commented Guido Roberto Vitale, an investment banker.[72] High corporate taxes dampened investment and perpetuated the growth of small firms (fewer than 15 employees), which enjoyed both tax and labor-law advantages.

Financial markets Italy suffered from inefficient financial markets which were just beginning to open up. Italy had a minimal stock exchange which brought in very little capital, and the government still maintained a 50% stake in several public companies.[73] Pier Giorgio Romiti, CEO of Impregilo S.p.A., explained that Italy was "evolving from an economy where more than half the GNP comes from state-owned companies. That is not real capitalism. All the state-owned companies are on the market, and the other half is the family-owned businesses."[74]

For years, Italy's banks had been controlled by politicians. "In Italy, our banking system is a disaster. It is public, oligopolistic, and there are very high rates," said Marco Spinedi of NOMISMA. Banking had been the latest sector to undergo privatization. While there had been over 600 banks in Italy during the early 1990s, a recent wave of mergers and acquisitions had triggered the consolidation of the banking sector. Both privatization and consolidation had started to reduce the influence of Mediobanca.[75]

Unemployment Italy had the second-highest unemployment rate among the EU countries. In 1998, Italy's unemployment rate was 2.2% greater than the average unemployment rate for the EU-15.[76] Italy's "hard core of long-term, hard-to-place workers" consisted of new workers, women, younger workers, and the aged.[77] In 1998, the unemployment rate for women was 16.8% compared with 9.4% for men; 33.2% of workers under the age of 25 were unemployed.[78] In the first half of 1999, the employment rate rose slightly. Females accounted almost entirely for the net gain in employment.[79] Although an increase in part-time and temporary work contracts had helped to create more jobs, the persistent unemployment of the disadvantaged category of labor remained a problem.[80] However, official figures did not reflect the employment rate of the black economy.

Italy's tax wedge was among the highest of the EU nations (**Exhibit 13**). The growth of the tax wedge during the 1990s was widely believed to have contributed to Italy's high unemployment and lack of competitiveness.[81] In 1998, unit labor costs in the manufacturing industry had declined, and Italy's productivity growth lagged in comparison to the Euro area. Italy's pension system also contributed to the rigidity of the labor market. Generous early retirement pensions discouraged people over the age of 50 from participating in the work force. While on-the-job protections were strong, unemployment benefits were less than spectacular. As a result, job mobility among younger workers remained low because of the high value placed on job security.[82]

While unemployment had decreased in the North-Center, the official employment rate in the South continued to fall. Unemployment was especially high among women and youth in the South. "The lack of working women in the South is mainly a cultural phenomenon. In the past, it was not even conceived that a woman could work. Now that women want to work, there is more pressure on the labor market," said Enzo Giustino, former vice president of Confindustria.[83] Despite regional differences in labor demand and cost of living, wages were the same throughout Italy. There was a plan to lower wages in the South in an effort to attract investment and boost employment.

The South had a large underground economy which was not factored into official unemployment statistics. Workers in the black economy received low wages and no employment benefits.[84] In the opinion of Mr. Vitale: "There is high unemployment because the system is too generous. It is easy to stay on the unemployment list, get your subsidy, and work on the black market. That way people can get two salaries, and they are very happy."[85]

Unions After World War II, the labor movement had split into three major trade unions: the Italian General Confederation of Labour (CGIL), representing many Communists and Socialists; the Italian Confederation of Workers' Unions (CISL), composed mostly of Christian Democrats; and the Italian Union of Labour (UIL), representing Republicans and Social Democrats. During the worker's movement of the 1960s, the unions began to loosen their ties with the political parties, and rules were changed so that union leaders could no longer be members of parliament.[86] Before the collapse of the Christian Democrats, the unions had been aligned with parties of the DC-led coalition. When the coalition fell in 1992, the unions acted together as a single political force, which represented over 10 million workers.[87]

Some employers blamed Italy's unions for creating a rigid labor market. The historic *Patto Di Natale* ("Christmas Pact") had been signed on December 15, 1998. The Pact formalized the 1992-1997 Concertazione agreements between unions, government, and business. As unions were given more negotiating power, the labor market grew increasingly rigid. Employers found it nearly impossible to hire and fire employees. "The firing restriction is very frustrating. If you fire an employee, you end up in court, where the judge can send him back to work. They can oblige you to rehire a fired employee," explained Franco Tatò, CEO, ENEL.[88] Still, union leaders argued that the labor market was more flexible. "The rules are the same in the North and the South. How can you say the system is too rigid when there is practically full employment in the North?" questioned Sergio D'Antoni, leader of the CISL.[89] Some unions supported a new bill that would limit the workweek to 35 hours in an attempt to create more jobs.

Bureaucracy Business leaders complained that Italy's huge public administration and pervasive regulation had hindered business development. The influence of the bureaucracy made it difficult to finance growth, and many companies chose to remain small. "One of the real tragedies of business life in Italy is that the authority's procedure for doing anything is unbelievable. There is terrible difficulty in establishing what you need, how much you need, and who to ask," said Mr. Tatò.[90] The government had announced a major restructuring of all the ministries in which the number of ministries would be reduced from 22 to 12 by 2001.[91]

Privatization From August 1993 to November 1998, the Italian government raised over L88trn through its privatization program (**Exhibit 16**). The number of privatizations slowed in 1998, but a secondary offering of ENI, the state-owned energy conglomerate, in October and the Treasury's November sale of its 70% stake in Banca Nazionale del Lavoro (BNL) increased revenues by more than L20trn. In October 1999, the Treasury started the liberalization of the electricity sector by selling off 34.5% of its holding in ENEL, the electricity utility giant, for L34.3trn.[92] Starting in 2003, ENEL will not be allowed to "control more than fifty percent of the electric power produced in or imported into Italy."[93] Also in 1999, the government sold its entire holding in the bank Mediocredito Centrale to Banca di Roma.[94] Preparations were underway to begin the privatizations of Aeroporti di Roma, Rome's airport; Autostrate, the motorway operator; the banks Banco di Sicilia and Credito Industriale Sardo; as well as another stake in ENEL.

Despite the State's commitment to the privatization program, Italy suffered from "an underdevelopment of free-market capitalism."[95] Little competition had been introduced in the utilities, energy, and telecommunications sectors. The government maintained holdings in ENI and ENEL, and IRI still ranked fifth among Italy's largest industrial groups in 1998.[96] Telecom Italia continued to monopolize the markets for fixed telephones. A *Financial Times* survey reported that "when it comes to the liberalisation of markets—exposing public and private utilities to competition—the pace of change in Italy has been modest at best."[97]

The South suffered from the privatization of state-owned enterprises. In recent years, programs to liberalize the Southern economy had removed the foundation upon which the Southern economy had been built. "Liberalization is getting rid of the State, and the South is not doing well as a result. In theory, it is good, but in practice it leads to unemployment and decreased revenues," explained Mr. Giustino.[98]

Education In 1998, only 34% of adults between the ages of 25 and 64 had obtained the *maturità* diploma (high school) or an advanced degree.[99] Investment in the education system remained low, and there was a scarcity of schools in the South. At the university level, a focus on trade-specific skills usually excluded the teaching of basic management practices. There were many students who left Italy to study in the United States and did not return home to work.

Technology Italy had been slow to adapt to the new digital economy. For years, its export-driven economy had specialized in the manufacturing of low-tech, low-value added products (**Exhibit 11**). The country's weak financial markets contributed to an absence of venture capital funds. Poor infrastructure, especially in the South, had hampered the development of e-commerce. A study by the European Union had revealed that it took an average of 13.2 minutes to place an order on Italy's internet and an average of 15.7 days to deliver the product, while in the United Kingdom, it took 8.4 minutes to make a purchase and 4.1 days to deliver it.[100]

Italy's strong base of mobile phone users, second only to Finland (per capita), showed promise for the future of the internet in Italy which would soon be accessible via cell phones.[101] The Italian industry structure which supported hundreds of networks of small entrepreneurial firms was a fertile breeding ground for internet start-ups. "Italy could be one of the greatest beneficiaries of the new economy, because it fits the Italian culture and bureaucracy. Nobody knows how to control the internet, and that is why it will boom dramatically," predicted Mr. Ferrario.[102]

Italy in 2000

In October 1998, the Prodi government fell after narrowly losing a vote of confidence. The small Communist Refoundation Party disagreed over the proposed 1999 budget, and half the party deserted the coalition and joined the vote of no confidence. President Oscar Luigi Scalfaro called Massimo D'Alema, the leader of the Democratic Left (DS), to form a government. D'Alema, the first former-communist to run a post-war government in Italy, formed a coalition with the main Olive Tree parties, the newly founded Party of Italian Communists (PDCI), the centrist Democratic Union for the Republic (UDR), and several smaller parties. D'Alema pledged to continue the privatization program; to initiate plans to stimulate development of the Southern economy; to reform the voting system; and to reduce the power of small parties.[103]

D'Alema's center-left government was weakened by internal divisions among the DS, PPI, and UDR. The centrist smaller parties grew frustrated with D'Alema's autocratic style and the growing power of the DS.[104] Divisions over policy issues prevented the passage of important reform legislation. One of the few agreements in parliament was the appointment of Ciampi as president of the Republic in May 1999. In June, local mayoral elections revealed the dwindling popularity of the center-left parties. The DS lost control of Bologna, and the other coalition parties performed poorly. In late December, three small parties defected from the coalition, and D'Alema resigned, hoping to reshuffle the cabinet and build a stronger alliance. A few days later, D'Alema formed Italy's 57th government since World War II.[105] The new government failed to stabilize the still-fragile coalition and continued to disagree on institutional reforms.

Despite the shaky political system, Italy continued to rectify its public finances and moved closer to establishing a market economy. At the end of 1999, the budget deficit had been reduced to an estimated 2.0% of GDP; the public debt, as a percentage of GDP, continued to decline; the unemployment rate was falling; and the recovery of world markets was expected to foster Italy's growth over the next few years.[106] The 2000 budget included measures to cut the deficit to 1.5% of GDP as well as fiscal allowances to stimulate growth and employment.[107] A moderate income tax cut for low- to middle-income families aimed to stimulate private consumption. The L15trn deficit-cutting program included L3.3trn cuts to government ministries and regional and local government; a renegotiation of loans to regions which was expected to save L2.5trn in interest payments; cuts in public-sector employment and a six-month freeze on recruitment; and a revision of contracts for the procurement of goods and services by the administration worth L2.4trn.[108] The government expected to raise L4trn through the sale of state-owned real-estate and additional revenue from the completion of the privatization program. Despite the growing need for pension reform, the 2000 budget failed to make any changes to the pension system.

The Treasury Ministry's Economic and Financial Planning Document 2000-2003 (DPEF) outlined the next step in Italy's quest for full integration: the growth of Southern Italy. The Southern Italy Development Programme (PSM) was designed to enable the South to achieve a growth rate higher than the European average. Through an increase in public investment, the PSM aimed to boost productivity and employment over the 2000-2006 period. The seven-year development plan was based on a series of integrated measures involving the following sectors: natural resources, cultural resources, human resources, local development systems, towns and cities, local institutions and associations, service networks and hubs. The success of the PSM depended on the "simultaneous implementation of three other sectoral policies: to strengthen competition; to improve and enhance the effectiveness of labour market allocation mechanisms; and to improve efficiency of the public administration."[109]

Election 2001 Following the center-left's defeat in the April 16th regional elections, Prime Minister D'Alema lost the support of his coalition partners and announced his resignation. Berlusconi and other members of the center-right coalition lobbied for an early general election. Fearing that an early election would block a referendum, President Ciampi called upon Treasury Minister Giuliano Amato to form Italy's 58th postwar government. Amato was expected to put together a solid center-left coalition which would rule until the 2001 election. In the May 21st referendum, Italians would be able to vote on several reforms, including a measure to change the electoral system to a 100% first-past-the-post system and another to eliminate a law which prohibited employers from firing their employees.

If elected in 2001, Berlusconi planned to stimulate the economy through a major tax cut. Personal and corporate taxes would not exceed 33%, and the number of taxes would be reduced from 100 to 8. Critics questioned how Berlusconi would counterbalance the proposed tax cuts. Berlusconi was also committed to reforming the State with the goal of a more equitable and efficient redistribution of welfare. Another major objective was the modernization of the public administration. Berlusconi's strategy to increase competitiveness included the following reforms: deregulation, with the elimination of an excess of laws; efforts to make the labor market more flexible; pension reform which increased the retirement age; and continued privatization of the public sector. His plan to rebuild the southern economy required a mixed policy of detaxation, deregulation, the building of infrastructure, and "the overcoming of the paradox where an excess of workers coexists with an unsatisfied demand for labor."[110] Although Berlusconi had outlined a strategy to increase competitiveness, some felt that the weaknesses of the Italian political system would prevent structural change. "Even if Berlusconi wins," explained Mr. Spinedi, "he will never be able to do what Margaret Thatcher did, because he won't have the support. Our government is unstable in terms of turnover and the large number of parties."[111]

Heading into the elections, it was unclear whether Amato's new government would pose a challenge to the center-right opposition, composed of Forza Italia, AN, Centro Cristiano Democratico (CCD) and the Lega Nord. The winner of the 2001 elections would have the difficult task of convincing the Italians that full European integration would require major cultural changes. "If we do not pursue a policy of liberalism, we run the risk that the policy will remain behind with respect to the advancement of globalization and the technological revolution, and will even begin to oppose it," Berlusconi said. "This requires a real cultural revolution, one that yields a reduction in the distances between us and the countries that are more advanced in terms of economic liberties, like the United States and Great Britain."[112] Following the American model of development would not be easy. Italy faced problems of political and social instability that were not present in the United States.[113] As Berlusconi planned his campaign strategy, he considered whether or not Italy would be able to create its own model of development.

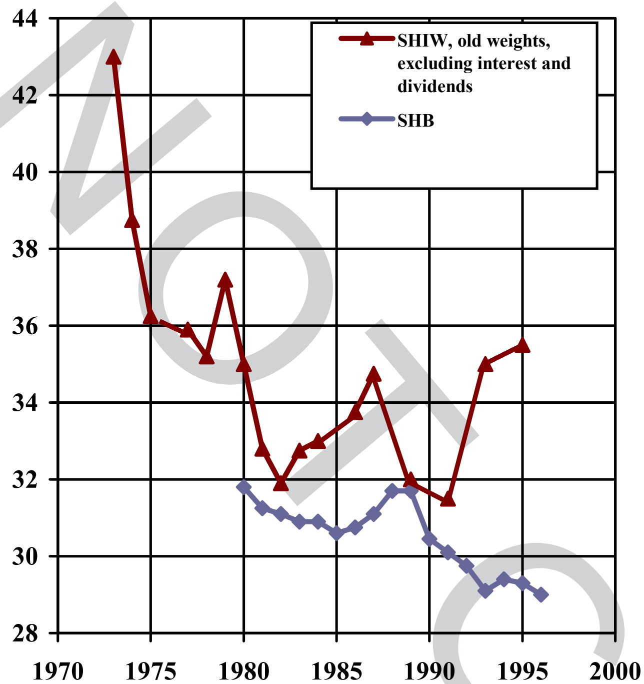
Exhibit 1 Map of Italy and Industrial Clusters

Exhibit 2 Population Growth in Italy (1989-2010)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	2001-05	2006-10
Population (millions)	56.7	56.7	56.8	56.9	57.1	57.2	57.3	57.3	57.4	57.4	N/A	N/A
Population growth rate (% change per year)	0.1	0.1	0	0.2	0.3	0.3	0.2	0.1	0	0.1	-0.17	-0.31

Sources: UN population projections, medium variant; International Labor Office, labor force projections; OECD, *Economic Outlook*.

Exhibit 3a GINI Index of Concentration of Households' Disposable Income in Post-War Italy



Source: Andrea Brandolini, "The Distribution of Personal Income in Post-War Italy," Bank of Italy, April 1999.

SHIW = Bank of Italy's Survey of Household's Income and Wealth.
SHB = Istat's Survey of Household Budgets.

Exhibit 3b Income Inequality (%)

	First Decile	Second Decile	Third Decile	Fourth Decile	Fifth Decile	Sixth Decile	Seventh Decile	Eighth Decile	Ninth Decile	Tenth Decile
1947[a]	2.2	3.8	4.9	5.8	6.4	8.1	9.2	11.2	14.2	34.2
1993[b]	2.0	4.0	6.0	7.0	8.0	9.0	11.0	12.0	16.0	26.0
1994[b]	2.4	4.7	5.9	7.0	8.2	9.5	11.1	12.9	15.4	22.9

Source: Luzzatto Fegiz (1949, p. 15, Table 2.4); Eurostat (1997, p. 2, Table 1); 1998b, p. 2.

[a]Distribution of Household Incomes by Decile. Doxa Survey, 1947/48
[b]Distribution of Post-tax Household Equivalent Incomes: Decile shares. ECHP, 1993-94

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Exhibit 4 Historical Summary, 1989-1999

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999[a]
GDP and Components											
Nominal GDP (L trn, current prices)	1,193	1,312	1,428	1,503	1,550	1,639	1,772	1,873	1,951	2,031[a]	2,127
Real GDP (L trn, 1990 prices)	1,310	1,312	1,326	1,333	1,318	1,346	1,386	1,395	1,416	1,434	1,452
Real GDP growth rate (%)	2.9	2.1	1.1	0.6	-1.2	2.2	2.9	0.9	1.5	1.3	1.2
Real GDP per capita (L '000, 1990 prices)	21,041	23,120	23,338	23,428	23,097	23,536	24,190	24,305	24,627	24,896	25,165
Private Consumption (% of GDP)	n/a	61.8	62.0	62.9	62.0	61.6	61.0	61.1	61.6	60.2	60.5
Government Consumption (% of GDP)	n/a	17.7	18.3	17.9	18.3	17.8	17.1	17.0	16.7	18.0	18.2
Gross Fixed Investment (% of GDP)	n/a	20.3	17.4	19.2	17.4	17.1	17.8	17.8	17.6	18.9	19.2
Exports (% of GDP)	n/a	20.8	21.2	17.8	21.2	22.9	24.8	24.6	25.8	25.7	25.5
Imports (% of GDP)	n/a	-22.7	-18.9	-18.2	-18.9	-20.1	-21.4	-20.8	-22.9	-24.4	-24.5
Prices, Wages, and Other Key Measures											
Implicit Price Deflator (% change)	6.3	7.6	7.7	4.7	4.4	3.5	5.1	5.0	2.6	2.4[a]	2.5
Nominal Average Wages (% change)	8.7	10.7	8.7	5.8	3.7	2.9	4.6	6.1	4.7	-0.5	2.9
Nominal Unit Labor Costs (% change)	n/a	n/a	8.3	4.1	1.9	-0.6	1.6	5.5	3	-1.9	1.1
Gross National Saving (% GDP)	20.0	19.5	18.5	17.1	17.9	18.6	20.6	20.4	20.4	20.9[a]	21.4
Employment Rate (%)	n/a	n/a	53.7	53.7	52.6	51.7	51.2	51.4	51.3	51.4[a]	51.5
Unemployment Rate (%)	10.7	9.8	10.9	11.5	10.2	11.3	12.0	12.1	12.2	11.9	11.4
North-West	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	7.3	7.1	n/a
North-East	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	5.7	5.3	n/a
Center	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	10.2	10	n/a
South and Islands	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	22.2	22.8	n/a
Unemployment Rate for Men (%)	7.1	6.4	6.2	6.5	7.8	8.9	9.2	9.4	9.4	9.4	n/a
Unemployment Rate for Women (%)	16.9	15.6	13.2	13.3	14.8	15.8	16.4	16.4	16.6	16.8	n/a
Unemployment Rate of Persons Under 25 (%)	31.4	28.9	26.1	27.2	30.4	32.3	33.3	33.5	33.1	33.2	n/a
Financial Indicators											
Government Expenditure (% of GDP)	52.1	54.3	54.3	54.5	57.6	55.1	53.3	53.3	51.0	49.9	49.4
M2 (L trn)	n/a	759.4	807.8	814.2	841.3	847.4	834.2	863.3	931.0	975.3	n/a
M2 growth rate (%)	5.4	6.9	5.7	2.8	3.0	3.6	-2.3	-0.7	9.31	0.93	n/a
3-Month T-Bill Rate (%)	12.7	12.3	12.7	14.5	10.5	8.8	10.7	8.6	6.4	5.0	n/a

Sources: European Commission, *Eurostatistics Yearbook;* European Commission, *Statistical Annex of European Economy*, November 5, 1998; IMF, *International Financial Statistics; The Economist,* "EIU Country Report 1st Quarter 2000; 1st Quarter 1999" (London: United Kingdom); *The Economist*, "EIU Country Profile 1999-2000; 1996-1997" (London: United Kingdom); Standard & Poor's DRI World Markets Report, December 1999; ISTAT.

[a]Estimates

Exhibit 5 Balance of Payments, 1989-1998 ($ millions)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Current account balance	-10,886	-12,733	-21,432	-29,217	7,802	13,209	25,076	39,999	32,403	19,998
Trade balance	-2,167	723	-896	-200	28,889	31,568	38,729	54,118	39,878	35,631
Exports of goods	140,118	169,940	168,790	178,155	169,153	191,421	233,998	252,039	240,404	242,572
Imports of goods	-142,285	-169,216	-169,086	-178,355	-140,624	-159,854	-195,269	-197,921	-200,527	-206,941
Net services	1,978	2,831	3,070	411	3,345	5,443	6,569	8,055	7,764	4,170
Services-credit	33,863	35,649	51,675	58,545	52,284	53,681	61,619	65,660	66,991	67,549
Services-debit	-31,885	-32,818	-48,605	-58,134	-48,939	-48,238	-55,050	-57,605	-59,227	-63,379
Net income	-8,467	-13,908	-17,576	-21,887	-17,218	-16,690	-15,644	-14,959	-11,202	-12,317
Income-credit	14,867	21,685	25,157	28,757	31,844	28,599	34,168	40,142	45,734	51,319
Income-debit	-23,334	-35,593	-42,733	-50,644	-49,062	-45,289	-49,812	-55,101	-56,936	-63,636
Net transfers	n/a	n/a	n/a	-7,541	-7,215	-7,112	-4,579	-7,215	-4,036	-7,485
Capital account balance	24,552	38,885	24,084	12,357	6,919	-13,182	-1,218	-7,916	-3,444	-15,716
Direct investment outflows	n/a	n/a	n/a	-4,148	-7,329	-5,239	-7,024	-8,697	-10,414	-12,407
Direct investment inflows	n/a	n/a	n/a	3,105	3,749	2,199	4,842	3,546	3,700	2,635
Net portfolio investment	3,256	-394	-6,170	8,155	74,064	-7,108	40,872	49,320	11,674	3,114
Portfolio investment assets	n/a	n/a	n/a	-16,975	12,178	-37,631	-5,790	-26,607	-62,975	-109,913
Portfolio investment liabilities	n/a	n/a	n/a	25,130	61,886	30,523	46,662	75,927	74,649	113,027
Other investment assets	n/a	n/a	n/a	-28,863	-44,197	2,092	-28,947	-68,358	-25,541	-21,232
Other investment liabilities	n/a	n/a	n/a	33,301	-21,027	-6,152	-12,632	16,206	13,703	9,816
Other capital movements	n/a	n/a	n/a	807	1,659	1,026	1,671	66	3,434	2,358
Errors & Omissions	-2,552	-15,764	-9,059	-7,132	-17,856	1,547	-21,054	-20,176	-15,810	-25,754
Change in reserves (- indicates an increase)	-11,114	-10,388	6,407	23,992	3,135	-1,575	-2,804	-11,907	-13,150	21,472

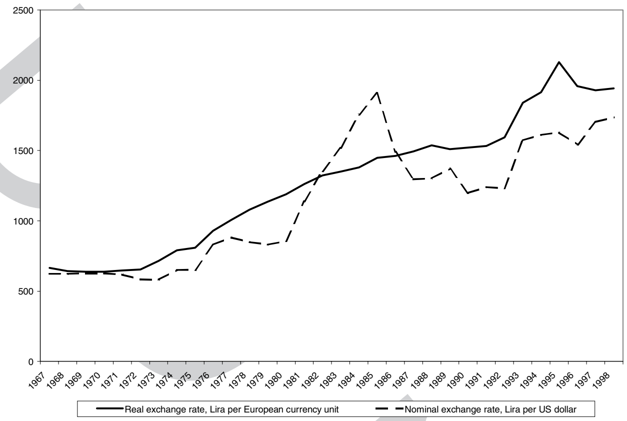
Source: IMF, *International Financial Statistics*.

Exhibit 6 General Government Finances, 1992-1998 (L billions)

	1992	1993	1994	1995	1996	1997	1998
Revenue	698,893	749,119	738,155	812,069	869,250	952,152	951,874
Direct taxes	221,506	250,835	244,854	259,741	284,344	309,855	292,611
Indirect taxes	167,660	186,611	192,173	209,610	221,463	238,521	311,787
Social contributions	226,188	240,615	244,267	261,824	282,796	301,889	270,932
Income from capital	9,412	9,177	8,516	11,771	13,155	14,949	11,715
Sale of goods & services	n/a	11,913	12,703	13,626	15,086	16,905	n/a
Other	40,344	35,853	28,069	40,619	43,381	51,835	51,974
Current revenue	665,110	735,339	741,239	790,506	856,255	922,385	939,009
Capital revenue	33,783	14,115	7,573	14,878	9,025	18,198	12,865
Expenditure	842,587	886,038	898,305	948,446	994,398	1,004,372	1,006,204
Current expenditure	772,416	819,121	830,491	865,914	919,693	936,586	928,519
Compensation of employees	190,248	193,121	197,446	201,188	218,039	229,494	226,005
Intermediate consumption	75,608	79,923	82,371	82,825	87,148	88,537	99,375
Social services	290,578	302,873	319,464	335,041	360,039	382,524	395,849
Subsidies to firms	27,032	33,915	32,864	27,852	29,214	27,246	26,303
Interest payments	172,662	187,800	179,927	201,132	202,362	185,163	152,609
Other	16,288	21,489	18,419	17,876	22,891	23,622	28,378
Capital expenditure	70,171	66,917	67,814	82,532	74,705	67,786	77,685
Gross investment	45,454	41,104	37,907	38,836	42,735	46,033	50,740
Investment grants	23,410	16,616	24,387	23,543	23,600	20,314	20,947
Other	1,307	9,197	5,520	20,153	8,370	1,439	5,998
Government Deficit (L billion)	-143,694	-136,919	-160,150	-136,377	-125,148	-52,220	-54,330
Government Deficit (% of GDP)	-9.6	-9.5	-9.2	-8.6	-7.8	-3.7	-3.2
Government Debt (% of GDP)	124.9	124.2	124.0	121.6	122.2	120.4	118.2

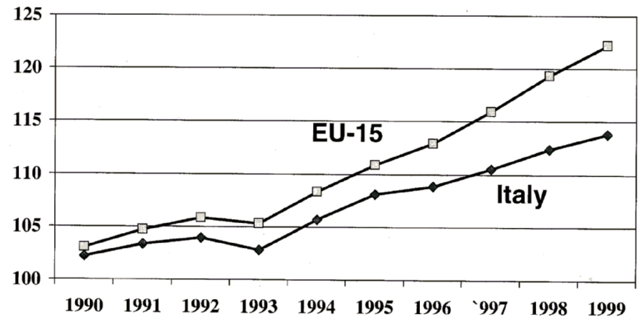
Sources: *The Economist*, "EIU Country profile 1999-2000" (London: United Kingdom); Bank of Italy, *1998 Annual Report.*

Exhibit 7 Exchange Rate



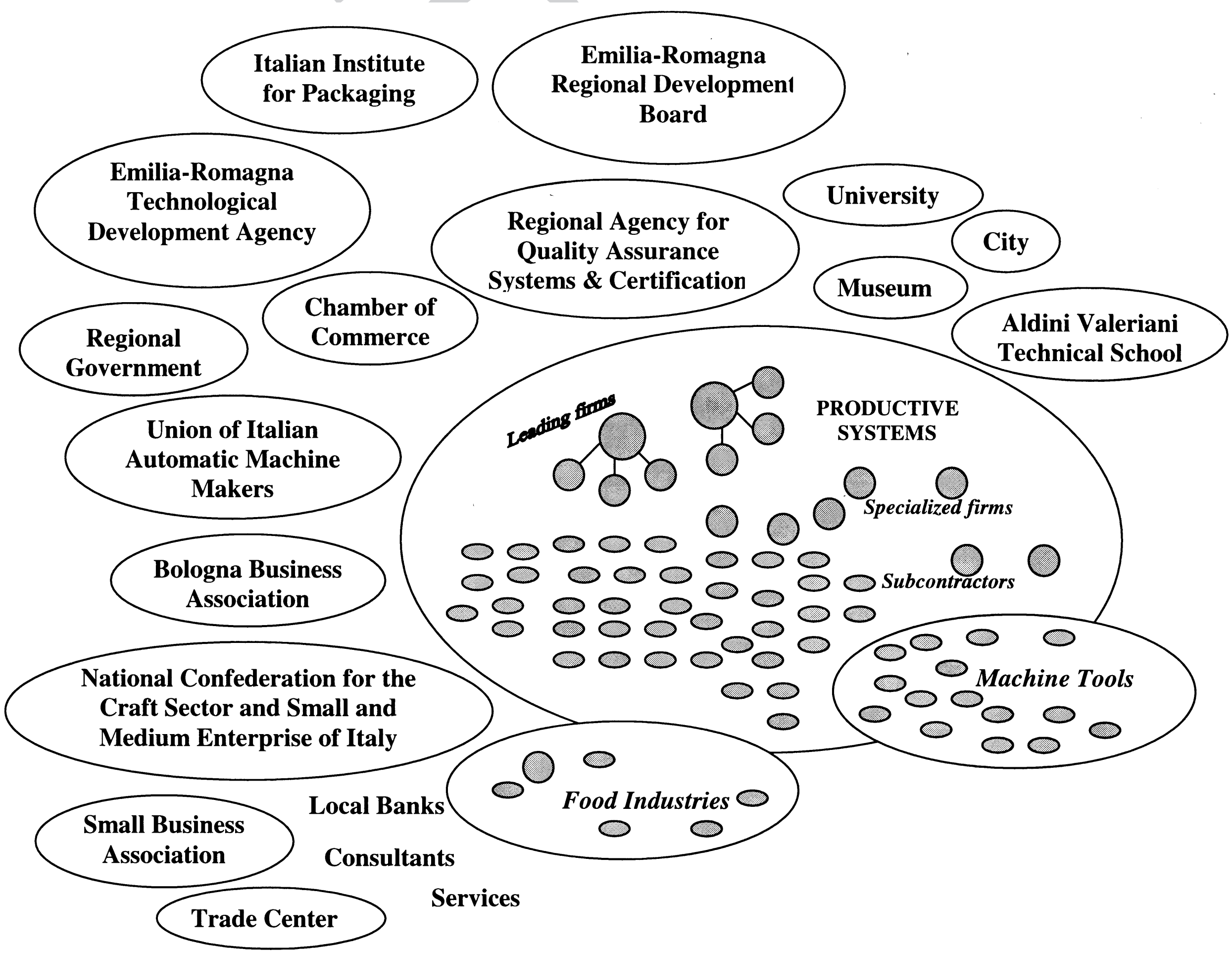
Source: European Commission, *Statistical Annex of European Economy*, November 1998; *Economic Report of the President, 1982, 1999*.

Exhibit 8 Real GDP Growth, Italy v. EU-15



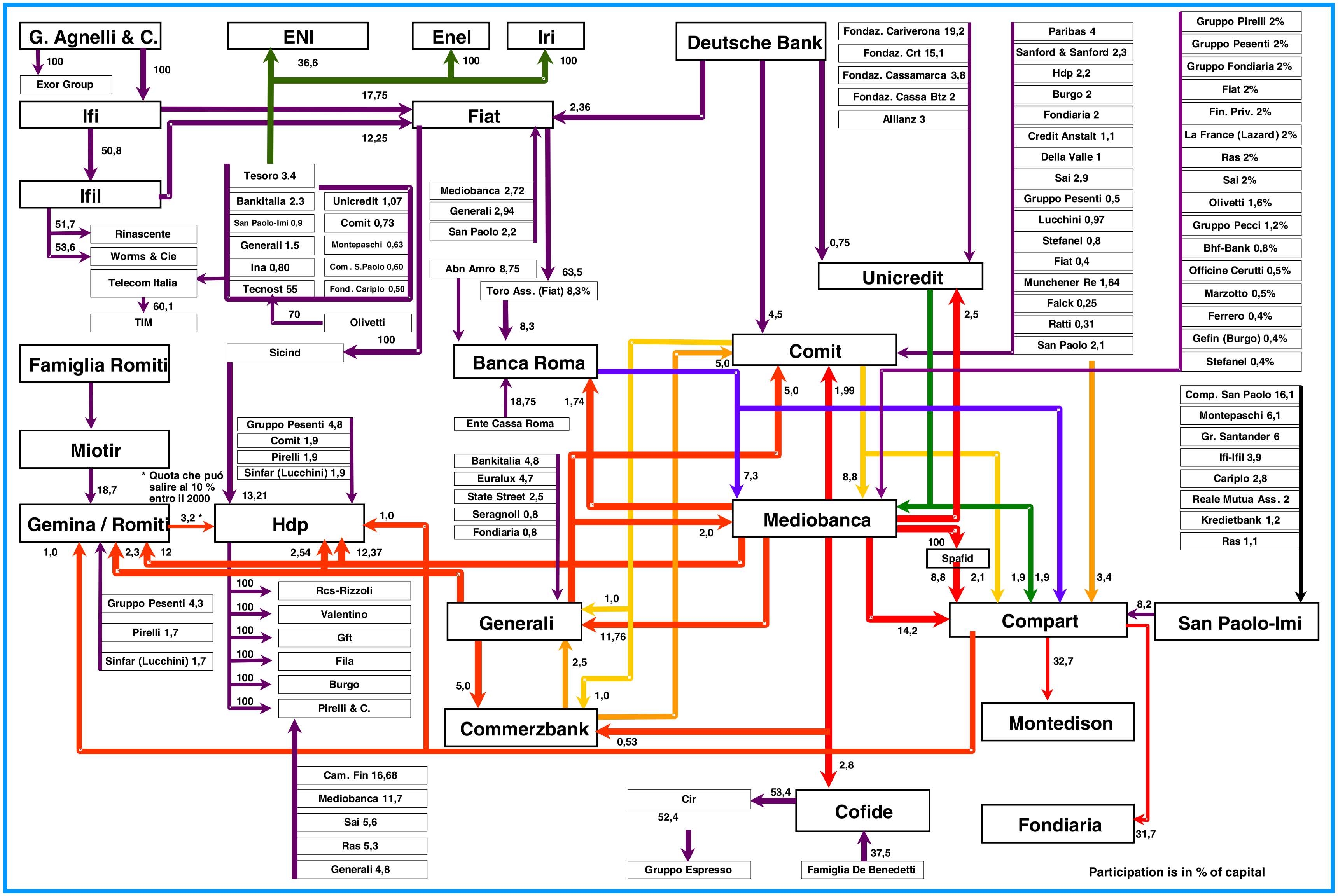
Source: EC, *Statistical Annex of European Economy*, November 15, 1998.

Exhibit 9 Bologna Automatic Packaging Machinery District



Source: UNIDO/NOMISMA and United Nations Industrial Development Organization, "The Italian SME Experience and Its Transferability to Developing Countries," August 1996.

Exhibit 10 Economic Power



Source: Fernando Napolitano, Vice President, Booz-Allen & Hamilton Italia.

Exhibit 11 Major Italian Exports and Their Destinations, 1993-1997

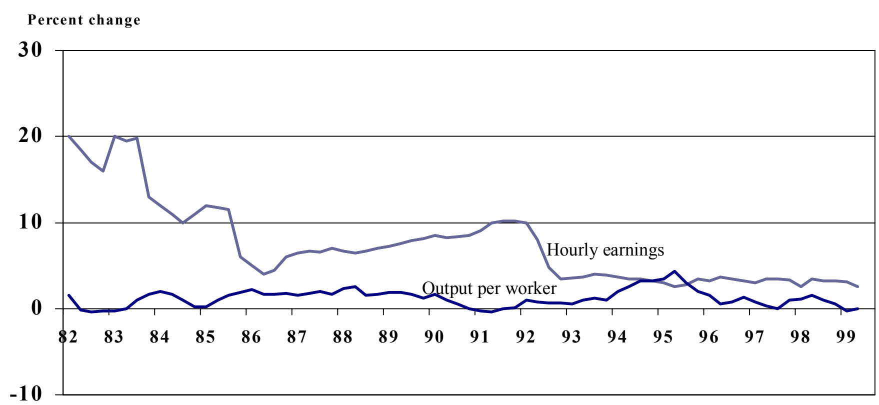
	1993	1994	1995	1996	1997
Exports (L billion fob)					
Agriculture, fishing & forestry	6,777	8,226	10,074	10,170	10,430
Energy products	5,715	5,057	5,168	5,740	6,800
Ferrous & non-ferrous metals & minerals	11,997	13,525	17,651	15,482	16,439
Non-metal mineral products	11,035	12,963	15,408	15,221	15,866
Chemicals	20,932	24,331	31,724	32,088	34,946
Engineering products	93,080	105,902	133,614	140,041	145,295
Transport equipment	24,013	28,888	38,060	38,747	39,863
Food, beverages, & tobacco	12,373	13,346	16,084	16,551	16,841
Textiles, clothing, & leather products	46,020	53,920	63,534	65,434	67,151
Total, including others	266,214	305,479	381,175	388,885	405,732
Destination of Exports (% of total value)					
Germany	19.5	19.3	18.9	17.5	16.4
France	13.2	13.3	13.1	12.7	12.2
US	7.7	7.8	7.2	7.3	7.9
UK	6.4	6.6	6.2	6.5	7.1
Spain	4.3	4.7	4.9	5.0	5.2
Netherlands	2.8	2.9	3.0	3.0	2.8
Belgium-Luxembourg	3.0	3.0	2.9	2.8	2.7
Austria	2.5	2.5	2.4	2.4	2.3
Greece	1.8	1.8	1.9	1.9	1.9
EU	57.1	58.0	57.3	55.7	54.6

Source: *The Economist,* "EIU Country Profile- Italy, 1999-2000" (London: United Kingdom).

Exhibit 12 Governments of the 1990s

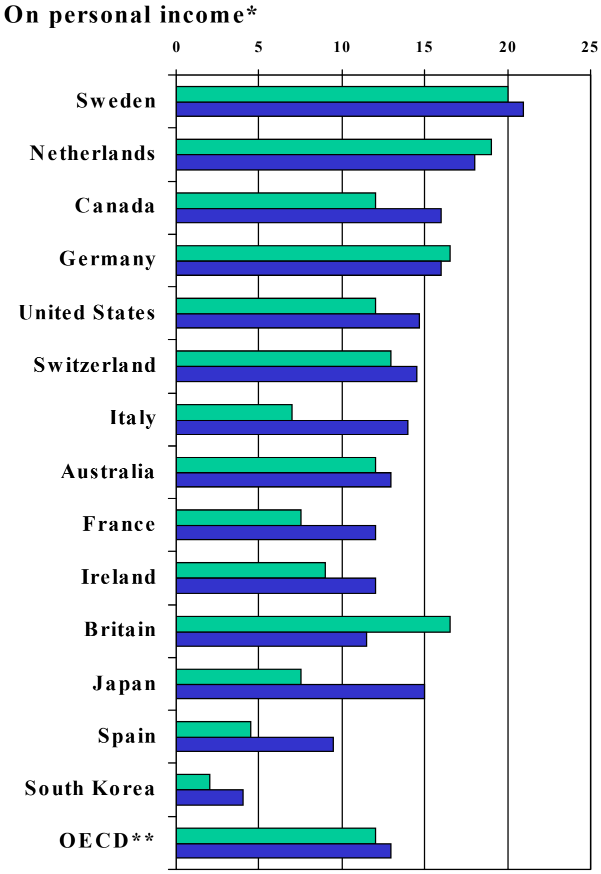
Prime Minister	Coalition (Major Parties)	Political Alignment	Begin	End
Giulio Andreotti	DC,PSI,PSDI,PLI	center-left	22-Jul-89	29-Mar-91
Giulio Andreotti	DC,PSI,PSDI,PLI	center-left	14-Apr-91	24-Apr-92
Giuliano Amato	PSI,PSDI,PLI	tecnici	28-Jun-92	28-Apr-93
Carlo Azeglio Ciampi	PSI, PSDI, PLI	tecnici	28-Apr-93	16-Apr-94
Silvio Berlusconi	Polo per le Liberta: Forza Italia, Lega Nord, AN, CCD	center-right	10-May-94	22-Dec-94
Lamberto Dini	PDS,PPI, AD, Lega Nord, Greens	tecnici, center-left	17-Jan-95	11-Jan-96
Romano Prodi	Ulivo: PDS,RC, PPI, I Verdi, Rinnovamento Italiano	center-left	17-May-96	09-Oct-98
Massimo D'Alema	Ulivo: PDS, PPI,UDR, PDCI	center-left	21-Oct-98	18-Dec-99
Massimo D'Alema	Ulivo: DS, PPI, Democratici per l'Ulivo	center-left	22-Dec-99	to date

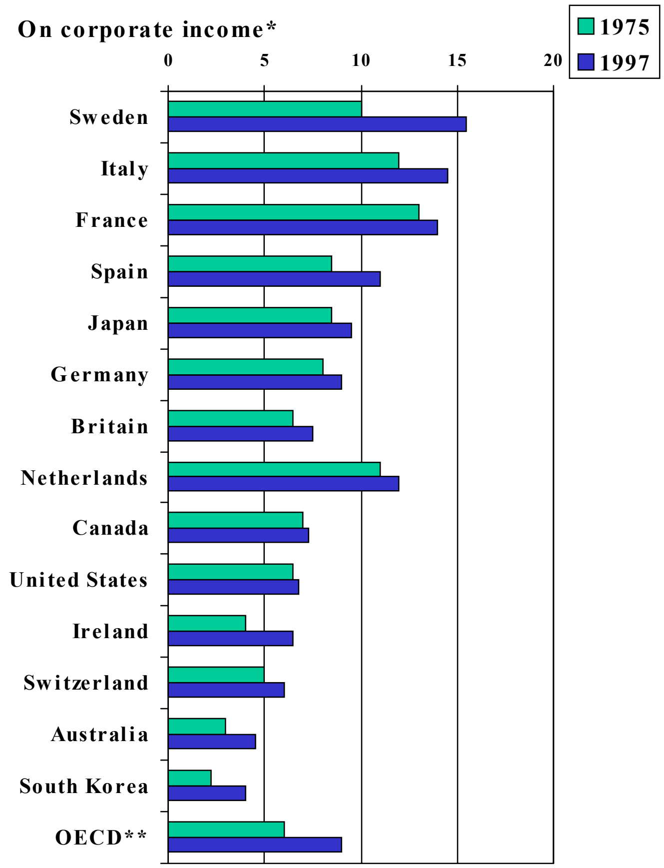
Exhibit 13 Hourly Earnings and Output per Worker



Source: *International Economic Trends*, Italy.

Exhibit 14 Income Taxes (tax as % of GDP)





*including employees'/employers' social-security contributions

**Unweighted average

Source: OECD

Exhibit 15 Tax Wedges[a] in the EU (%)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	Change 1998-90
B	51.1	50.4	50.9	50.9	51.9	51.9	52.1	52.4	52.2	1.1
DK	53.7	54	45	54.3	56.6	56.2	56.4	56.7	57.1	3.4
GER	50	50.2	50.8	51.4	52.8	53.2	52.6	53.3	53.3	3.2
GRE	35	36.3	36.3	36.7	37.4	37.9	37.9	38.1	39	4
SP	39.1	39.8	41.5	40.8	41.6	40.8	41.1	41.5	42.3	3.2
F	52.8	53	53.1	53.2	53.8	54.1	55	55	52.8	-0.1
IRL	38.8	38.4	38.3	37.9	38.8	37.8	37.9	38.6	39.4	0.6
I	42.7	43.4	44.3	46.9	45.8	46.8	47.4	48	48.7	6
NL	51.9	54.1	53.8	54.2	53.2	52.4	51	52.6	51.9	0
A	50.6	50.8	51.7	52.4	52.6	53	53.9	54.7	54.6	4
P	35.8	35.8	38.2	37.5	38.2	38.9	38.9	39.4	40.2	4.4
FIN	55	53.3	55.2	55.9	59.7	57.6	58.3	58.2	58.2	3.2
S	60.6	57.7	55.7	55.2	56.1	56.5	58.3	58.7	58.5	-2.1
UK	36.1	36.8	36.1	36	36.5	37.2	36.6	37	37.2	1
EUR 11	47.8	48.2	48.8	49.7	50.3	50.6	50.6	51	50.6	2.8
EU-15	46.2	46.6	47.1	47.7	48.3	48.7	48.7	48.7	48.4	2.2

Source: European Commission Services estimates.

[a]The tax wedge includes all taxes borne by labor (social security contributions and personal taxes on labor income) plus the part of consumption taxes paid when spending labor income. The tax wedge is the difference between the producer wage and the consumer wage as a percentage of the former.

Exhibit 16 Main Privatisations, since 1993

Company	Holding Company or Ministry	Stake Sold (%)	Quota Still Public (%)	Date of Sale	Gross Revenue from Sale (L billion)
Italgel (food)	IRI	62.0	0.4	August 6th 1993	437
Cino-Bertolli-De Rice (food)	IRI	62.0	0.6	October 7th 1993	310
Credito Italiano (bank)	IRI	67.0	2.0	December 8th 1993	1,829
SIV (glass)	EFIM	100.0	0.0	December 21st 1993	210
IMI (bank)	Treasury	27.9	27.10	February 1st 1994	2,180
Banca Commerciale Italiana (bank)	IRI	54.0	2.0	March 1st 1994	2,891
Nuovo Pignone (engineering)	ENI	69.3	20.3	May 23rd 1994	713
INA (insurance)	Treasury	49.45	52.80	June 28th 1994	4,530
Acciai Speciali Terni (steel)	IRI	100.0	0.0	December 23rd 1994	600
SME (supermarkets & catering)	IRI	32.0	30.1	December 23rd 1994	704
Ilva Laminati Piani (steel)	IRI	100.0	0.0	March 1st 1995	1,800
Italtel (telecoms eqp)	STET-IRI	40.0	50.0	January 1st 1995	1,000
Ilva Laminati Piani (steel)	IRI	100	0.0	March 16th 1995	1,929
Enichem Augusta (chemicals)	ENI	70.0	14.3	April 18th 1995	300
IMI (2nd tranche)	Treasury	14.48	8.1	July 1st 1995	200
SME (2nd tranche)	IRI	14.9	15.2	August 22nd 1995	341
INA (2nd tranche)	Treasury	18.37	34.4	October 12th 1995	1,687
ENI	Treasury	15.05	85.0	November 22nd 1995	6,299
Dalmine (steel)	IRI	84.1	0.0	January 4th 1996	301
Italimpianti (plant machinery)	IRI	100.0	0.0	March 13th 1996	42
Nuova Tirrena (insurance)	Consap	91.1	0.0	March 29th 1996	548
SME (3rd tranche)	IRI	15.2	0.0	May 16th 1996	238
INA (3rd tranche)	Treasury	31.1	3.3[a]	June 20th 1996	1,103
MAC (telecoms)	Finmeccanica IRI	50.0	0.0	June 28th 1996	247
IMI (3rd tranche)	Treasury	6.94	1.1[b]	July 8th 1996	501
Montefibre (ENI-Enichem)	Treasury	65	0.0	July 9th 1996	200
ENI (2nd tranche)	Treasury	16.19	69.2[b]	October 28th 1996	8,872
Aeroporti di Roma	IRI	45	54.0	July 17th 1997	500
Telecom Italia	Treasury	39.54	5.2	October 24th-25th 1997	22,883
SEAT (publishing)	IRI	44.74	0.0	November 25th 1997	1,653
Banca di Roma	Foundation	n/a	n/a	November 1997	3,000
ENI (4th tranche)		14.21	36.8	June 22nd-26th 1998	12,995
Banca Nazionale del Lavoro	n/a	70%	0.0	November 20th 1998	7,700

Source: Bancad'Italia, *Annual Reports 1995, 1996* and *1997* and Ministero del Tesoro, *Documento di Programmazione Economico-Finanziaria 2000-2003*.

[a]1996.

[b]Bonus shares to be distributed in due course. Including 1.2% of bonus shares from thet wo tranches sold.

Endnotes

[1] Fernando Napolitano, Vice-President of Booz-Allen & Hamilton Italia, arranged interviews with Italian government officials and business leaders which were essential to the development of this case.
[2] Personal interview with Silvio Berlusconi, Leader of Forza Italia and Former Prime Minister of Italy.
[3] Personal interview with Silvio Berlusconi, Leader of Forza Italia and Former Prime Minister of Italy.
[4] The Central Intelligence Agency, *The World Factbook 1999: Italy.*
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[6] Istat, *1998 Report Synthesis.*
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[9] Personal interview with Professor Dino Piero Giarda, Undersecretary of State, Treasury Ministry.
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[22] Personal interview with Mario Carlo Ferrario, President, Redifin.
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[27] Personal interview with Fernando Napolitano, Vice President, Booz-Allen & Hamilton, Italia.
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[29] Embassy of Italy in the United States, "Windows on Italy: The History."
[30] Hilary Partridge, *Italian Politics Today (*Manchester: Manchester University Press, 1998), p. 102.
[31] Mario B. Mignone, *Italy Today: At the Crossroads of the New Millenium (*New York: Peter Lang Publishing, 1998), p. 155.
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[33] Mario B. Mignone, *Italy Today: At the Crossroads of the New Millenium (*New York: Peter Lang Publishing, 1998), p. 149.
[34] *The Economist,* "EIU Country Profile: Italy 1999-2000" (London, United Kingdom).
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[37] *The Economist*, "EIU Country Profile: Italy 1999-2000" (London, United Kingdom).
[38] Mario B. Mignone, *Italy Today: At the Crossroads of the New Millenium (*New York: Peter Lang Publishing, 1998), p. 149.
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[51] Personal interview with Silvio Berlusconi, Leader of Forza Italia and Former Prime Minister of Italy.
[52] Personal interview with Mario Carlo Ferrario, President, Redifin.
[53] Personal interview with Silvio Berlusconi, Leader of Forza Italia and Former Prime Minister of Italy.

[55] *The Economist*, "EIU Country Profile: Italy 1999-2000" (London, United Kingdom).
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