

# THE LONG MARCH OF ITALIAN COMMUNISTS, FROM REVOLUTION TO NEOLIBERALISM: THE ECONOMIC POLICY OF THE ITALIAN POST-COMMUNISTS IN HISTORICAL PERSPECTIVE <sup>1</sup>

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## **1. Italian Communists' role in Italian post-war political and economic life, until the end of the eighties.**

### *1.1 The Italian Communist party as an opposition party until the end of the sixties*

The Italian Communist Party was born in 1921 as an emanation of the Third International and did follow the fate of the International Communist movement in the pre-war and early post-war years. There are a lot of distinguos by sympathetic historians as to the peculiarities of the party and the distancing itself from the policies of the international Communist movement. However, the emphasized specificity of the party may have amounted more to matters of tactics and to a realistic adaptation to a specific national context than to a real differentiation in long-run political objectives. Realism and the directives coming from Moscow alike (as borne out by a number of documents recently made available from Russian archives),<sup>2</sup> while trying to avoid a repetition of the disastrous Greek experience of insurgency,<sup>3</sup> prompted the Communist leadership in the post-war period to a policy of sometimes vigorous, but by and large constitutional opposition. The legality of the opposition,<sup>4</sup> and later a good deal of cooperation in the running of the political

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<sup>1</sup>I must thank Carlo Fusaro and Michele Salvati for useful suggestions. Needless to say, they should by no means held responsible for the contents of the present paper.

<sup>2</sup>See Aga-Rossi Elena, Victor Zaslavsky, *Togliatti e Stalin: il PCI e la politica estera staliniana negli archivi di Mosca*, Bologna: Il Mulino, 1997.

<sup>3</sup>For the importance of Greek experience on the stand of the Italian Communist party, see Giorgio Galli, *Storia del Partito Comunista Italiano*, Milano: Edizioni il Formichiere, 1976, pp. 248-49.

<sup>4</sup>During the period when the organization of the Party was under the leadership of Pietro Secchia (1948-55) some preparation for a possible insurgency was made and a kind of clandestine military organization was put into place, both in a defensive perspective against the possibility of a non-constitutional repression against the PCI, and, presumably, in an offensive one in case the

system,<sup>5</sup> was instrumental in avoiding the prevailing of the tendencies towards violent extra-constitutional solutions leading to the suppression of the opposition and the instauration of an authoritarian, possibly military, government. This authoritarian option was never ruled out by sections of the political establishment, and their foreign supporters in the NATO alliance, almost until the fall of the Berlin Wall.<sup>6</sup>

In the above we can see instances of two features that have characterized post-war Communist activity in Italy. The first is the shadow of the international experience of other Communist parties outside the Communist block, the other the awareness of the strict limit to the activity of the Party provided by the international position of Italy and the all-present danger to repeat the more tragic aspects of that experience. Togliatti was settling for the least of possible evils, seen from his viewpoint, by accepting the rules of a representative democratic system. He knew quite well what the price for not accepting those rules would have been, as well as that the existing constitutional rules would have not hindered the Party in the least from taking power and establishing a popular democracy, along Central European lines, had a favourable historical situation arisen.<sup>7</sup> Besides Greece, Allende's fate in 1973 provides another paramount experience impressing to the Italian Communist party a further twist towards cooperation with other political forces, in order to minimize the danger of a similar tragedy on the Italian soil.<sup>8</sup> A similar impact could have had the

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international situation were to change (for instance in case of an European war, or of NATO disintegration). The existence of this organization did not bring about violent extra-constitutional activities; however it could have discouraged any idea of an authoritarian turn against the Communists, as it made the perspective of a repression much more costly.

<sup>5</sup>This cooperation dates back at least to the mid fifties. In the fifties Communist votes were decisive for electing the president of the Republic (Gronchi), and members of the Constitutional court (1955/56). According to Salvatore Vassallo (*Il governo di partito in Italia (1943-1993)*, Bologna: Il Mulino, 1994, pp. 152-153), in the twenty years from 1948 to 1968 on average the PCI voted in favour of 74% of the laws which were approved. Seen from another viewpoint, this means that in all these laws there was something which the Party approved of.

<sup>6</sup>As borne out, among others, by the evidence coming out of the P2 and Gladio affairs, in particular.

<sup>7</sup>The continuous celebration of that model of economic and political organization was compatible with an inner political agenda of this kind.

<sup>8</sup>In the Fall of 1973 Berlinguer, then general secretary of PCI, expressed his reflections on the lessons of the Allende experiment in an essay published in the authoritative ideological journal of

persecution of Communists in a number of countries, in a period when important sections of the American establishment favoured the instauration of repressive regimes against constitutional legality in countries, such as Greece (1967-1975), with a strong Communist party and an unstable social and political structure, to which Italy in some ways could be compared.

Otherwise the Communist party was performing a very important function in organizing and keeping under control the disruptive forces that were pressing from the underbelly of an inegalitarian and still half-underdeveloped society towards a revolutionary and violent overturn of the existing social and political order, even if its behaviour was in some way contradictory and not devoid of ambiguity. On the one hand the Party was enflaming its supporters with revolutionary slogans and perspectives, enhanced by the exaltation of foreign revolutionary examples (liberation struggles in the third world, later Vietnam) and the recollection of revolutionary violence in the war against the Northern Fascist regime and the occupying German forces (*Resistenza*). On the other it was realistically taking into consideration the impossibility of fulfilling those slogans and perspectives, in the immediate future, at least. Thus it would organize and keep under control potentially revolutionary and violent forces, which were made unable to disrupt the social and political climate to the extent they could and would, had nobody hold them in check through the organizational power of the Party and the hope and sense of identity bred by a revolutionary eschatological view of the future. In a sense the role of the Party was symmetrical to that of the Catholic Church, which in the whole of the post-war period, in face of the perceived deadly menace of Communism, was very active in conjuring political support for the governing Christian Democratic Party and for contributing to social and economic discipline.<sup>9</sup> The latter was also favoured by a strict control of public information and of public order.

Thanks to the overall social and political climate Italy enjoyed moderation in the development of money wages. This ensured a long and fruitful period of steady growth, accompanied by monetary stability and fast growth of employment. Thus the Italian economy and civil society were able to

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the party, *Rinascita* ("Riflessioni sull' Italia dopo i fatti del Cile"). The final section concluded with an explicit reference to the urgency of a political compromise "between the forces which represent the majority of the Italian people", in order to forestall reactionary authoritarian solutions of the Chilean type (*La Repubblica*, 11/9/98, p. 41).

<sup>9</sup>The opposite but symmetric function of the Party and the Church in maintaining public order and organizing consensus is reflected in the contemporary savoury novels of Giovanni Guareschi on Don Camillo and Peppone.

progress, consolidating the position of Italy as an industrial power, co-founder in 1957 of the European Economic Community.

Important aspects of social policy, continuing in large measure the social policies of the Fascist period, such as the social insurance system, the value *erga omnes* of collective agreements between representative organizations of employers and employees, and large scale programmes of council house construction, were used to grant to the toiling masses some measure of social protection and to forestall the destabilizing effects of Communist propaganda. The latter was directed at extolling the achievements of Soviet-type economies and societies and to stimulate workers' claims concerning wages and social conditions, as well as the enlargement of the sphere of state intervention. These latter aspects of the Communists' stand found some echo in the ruling parties, especially, once the centre coalition was substituted by a centre-left one, in the Socialist party.

The change of regime, made indispensable by the progressive erosion of the electoral support of the centre coalition parties, occurred in 1962, through the entering in the parliamentary majority of the Italian Socialist party which was until then, as an ally of the Communists, at the opposition. Notwithstanding the proclaimed onset of planning (which by and large remained on paper) and some striking measures such as the nationalization of electrical companies and the attribution to the state of the monopoly of electricity production and distribution, the political change did not bring immediate far-reaching consequences. A profound change occurred however at the end of the sixties, when the previous *modus vivendi* broke down. A new generation, which had not known the horrors of the war and lacked the vivid recollection of the deprivations of the immediate post-war period, and therefore bred high expectations, came to the fore. On the one hand they wanted to immediately attain the living standards of the better off, and of the masses in more advanced and prosperous countries, disrupting with a break-down of social relations (*Autunno caldo*, "Hot Autumn", of 1969) the non-inflationary progress of the Italian economy, on the other some of them wanted to put into practice the revolutionary teaching of the Communist party. Would-be-revolutionaries or simple trouble seekers got tired of waiting for a revolution that was always proclaimed and celebrated with fervour whenever happened somewhere else, especially if it fostered the geopolitical interests of the big Soviet brother, [even bloody and corrupt regimes such as Idi Amin's in Uganda and Mengistu's in Ethiopia were later hailed as "revolutionary" in the Communist press] but was postponed, at home, for the indefinite future.

The change of climate at the end of the sixties found its counterpart in disruptive economic measures favoured by the Left in general, and in particular by the Italian Communist party (which was increasing more and more its role as an important part of the political establishment), such as

the abolition of the differentiation of base statutory wage rates set in collective agreements (*gabbie salariali*) in 1969, which contributed to the worsening of the occupational problem of the South.<sup>10</sup> Owing to the changed social and political climate the government often intervened, in its mediating capability, in collective negotiations, taking the employees' side against wage moderation. The result was a wage explosion which resulted in increased inflation, lower investment and larger unemployment, but also in a dramatic reshuffling of income distribution, in favour of workers and employees and in an egalitarian direction.

### ***1.2. The gradual transformation of the Communist party in the role of a truly constitutional opposition, and its sharing of power***

As far as their political stand is concerned, Italian Communists were learning from experience. We have seen that Allende's experience was important for understanding the dangers associated with the taking of power in the face of high expectations towards left-wing demagogic policies by their supporters, and high American hostility and likely destabilization. Moreover there was by then an ingrained tradition in the acceptance of a realistic de-facto *modus vivendi* with other political forces. The de facto repudiation of any tendency towards revolutionary action, and the unreserved acceptance of parliamentary democracy, both in the short as well in the long run, was sealed by the uncompromising stand eventually taken (after some initial indulgence) against violent action by extra-parliamentary left-wing groups, and then by the Red Brigades. In this connection the widespread experience of the Communists in administering local authorities in the whole of the post-war period should not be underrated, as providing a contributory factor to their democratic maturation. In the seventies, with the *compromesso storico* ("historical compromise") the Communist party, notwithstanding some demagogic and populist drives, fundamentally accepted to be a loyal component of the constitutional parliamentary system, and even accepted the international place of Italy in the Western camp.<sup>11</sup> However, important forces inside, but

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<sup>10</sup>Until 1970 the differential in the rate of employment between South and North was diminishing, since 1970 was increasing. Cf. Vittorio Daniele, "Divari di sviluppo e convergenza regionale in Italia: un esame per il periodo 1960-1998". Università degli studi Magna Graecia di Catanzaro. Dipartimento di Diritto dell'organizzazione pubblica, Economia e Società, Working Paper 09/2002 (downloadable from <http://www.unicz.it/dipartimenti/dopes/danielewpo902.pdf>), p. 16.

<sup>11</sup>The loosening of the ties with the international Communist movement, which had already a significant manifestation in the critical stand taken by the majority of the party towards the Warsaw pact invasion of Czechoslovakia in 1968, went as far as Berlinguer's statement in a TV

especially outside Italy, infiltrating sections of the army, police, and especially secret services and structures of NATO alliance, were not ready to accept the Communist party as a national government force, and in order to avoid its participation into the government were ready to destabilize the country through the obscure and bloody means of the *strategia della tensione*, inaugurated in 1969, in the wake of the social disturbances of the late sixties, apparently in order to prepare the way to an authoritarian takeover, which happily enough did not eventually occur. Even the Red Brigades' kidnapping of Moro (1978), the man who was working for the access of the Communists to the government, which still now presents some unexplained odd circumstances, could have been favoured, or masterminded, according to some interpretation, by the same forces.<sup>12</sup>

Indeed, notwithstanding the important part the Communists were increasingly taking in the running of the political system,<sup>13</sup> there was a kind of consensus that it would be too dangerous to allow them to take government posts. Even in the times of the *compromesso storico* and of national solidarity governments, which were supported by a majority extending to the Communists, no member of the Party did eventually take government responsibility. The first time members of the Party were able to take ministerial responsibility, after they were evicted by De Gasperi in 1947, was briefly in April 1993 with the Ciampi government, but by that date the Party had changed its name. The process of learning from experience went far enough to eventually

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transmission, which I watched at the time, that "Socialism could better be build under the NATO umbrella".

<sup>12</sup>This does not mean that Red Brigade leaders were themselves knowing agents of some obscure reactionary agenda (as was pretended, adhering to the traditional habits of double-talk and disinformation, by the Communist party propaganda at the time). Had they been, they would have been killed or remained free. In reality most of them endured long prison sentences.

<sup>13</sup>From 1971 to 1987 no law could in practice be approved against the strong will of the opposition. According to lower Chamber regulations introduced in 1971 (but sanctioning previous modes of behaviour) as a guarantee to the opposition, the agenda of the Chamber had to be approved unanimously by all parliamentary groups. In theory, in case of disagreement the matter could have been referred to the general assembly. In practice, however, any strong group was put in the position to effectively paralyze the work of the Chamber. In 1987 the system was changed, after a bitter confrontation, attributing the decisive say to the chairman of the Chamber. It should be added that from 1972 to 1994 the elected chairman of the lower Chamber was a member of the Communist party.

understand the negative consequences of state ownership and direct intervention under Italian conditions and of the negative consequences of the populist policies originally advocated by the Italian Communist party itself. By then the Wall had fallen, and the bulk of the former Communist party, transformed into the post-Communist PDS<sup>14</sup> in 1990, was ready to play an active role in government, supporting the austerity policy of the Prodi government that led to the fulfilment of the economic conditions (in particular the reduction of budgetary deficit below 3% in 1997), which allowed Italy to join the European single currency system from its start in January 1999.<sup>15</sup>

### ***1.3 The crisis of the Italian welfare state and of Italian public finances.***

Facing the social turbulence and instability of the seventies, governments and political forces resorted to the usual actions of weak governments facing irreconcilable social demands and incompatible claims on the distribution of national income, leading to inflation of nominal incomes, as well as of nominal wealth, following the massive increase of the public debt. This development was conjured by the overcoming of the economic views dominating the action of the centrist governments of the first post-war period, that development should at best take place in a framework of “sound” finance and stability of the currency, and that government should keep its hands off from the daily running of industry in general, and of state industry in particular. The new view, which took shape in the sixties, was advocating Keynesian management of aggregate demand and direct intervention in the running of industry, in the framework of national and regional planning, as well as the implementation of industrial policies.<sup>16</sup> It is obvious that this view was also closer to the ideological viewpoint of the Communist party and could have favoured its organic insertion in the national political process. The outcome was a set of policies focused at creating consensus by giving in to the different claims coming from different sections of society. Rank and file workers and employees, through the introduction of the *punto unico di contingenza* (according to which the reintegration of nominal wages to offset inflation was equal

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<sup>14</sup>*Partito Democratico della Sinistra* ("Democratic Party of the Left"), DS ("Left Democrats" since 1999). An important minority group choose to continue to call themselves Communists, founding the *Partito di Rifondazione Comunista*.

<sup>15</sup>The finance minister of the Prodi government, Vincenzo Visco, a PDS member, was particularly successful in achieving a marked increase of the overall fiscal revenues.

<sup>16</sup>For an eloquent representation of the new view at the time see for instance Francesco Forte's influential book of 1964 (*Introduzione alla politica economica. Il mercato e i piani*, Torino: Einaudi, 1964).

for everybody: a powerful egalitarian mechanism), and political support in industrial disputes. State employees, through wage increases and increases in their number and in their privileges, such as, in particular, early retirement. The ruling parties apparatuses, through appointments in state industries and various quasi-state bureaucracies. Local interests, through the creation through constitutional reform of regional self-governments and of the corresponding bureaucracies as well as, especially in the South, through the political influence on the choices of the state industry, leading often to the support of non long-run viable initiatives. The ultimate folly of building a great steelworks factory in Gioia Tauro, in the name of import substitution and job creation, in a period in which the world crisis of the steel industry was already looming,<sup>17</sup> was averted at the very last minute, after the devastation of the Gioia Tauro plain, which was earlier a prosperous agricultural area, notwithstanding the vocal opposition of powerful political forces, the Communist party included, which wanted the plant to be completed at all costs.

Many a waste and folly were accomplished in the South, through the de facto alliance of various political forces. The Christian Democrats and the Socialists in power in particular were viewing direct state, or state subsidized, investment in the industry as a way to gratify and enlarge local clienteles and as a source of influence and illegal financial support. The Communists were ideologically much in favour of direct state investments and intervention anyway. Moreover they would see industrial investment leading to increased industrial employment as a means to enlarge their own constituency.

The generous distribution of fake disability pensions was both a system of facing the social problems of unemployment and destitution in the South, as well as a means of building up personal support for intervening politicians. This applied also to the enlargement of public employment, in particular in the railways and postal services (one of the most sought after ministerial posts was always the Ministry of the Post).

The costs of inflation were supported essentially by savers through negative real rates of interest. A set of strict exchange controls and stiff penalties for capital exporters were set in place, which however could not avoid massive capital flights.<sup>18</sup>

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<sup>17</sup>The formal decision by CIPE (the Inter-ministerial Committee for Economic Planning) to build the steelworks was taken in April 1974, after the first oil shock.

<sup>18</sup>Capital flights included assets of those who had imposed the penalties in the first place (ruling political elite and political parties) as is borne out from the “lista dei cinquecento” affair (a secret list of five-hundred VIPs receiving specially favourable treatment with the complicity of Italian monetary authorities).

The eighties were marked by two important developments. The first was the end of the *compromesso storico*. The position of the Socialists with Craxi secretary (since 1976) was of complete disenfranchisement from Communist influence, reversing the ambiguous and somewhat subordinate position, marked by a kind of inferiority complex, which they had towards the Communists in the years before. During the period of *compromesso storico* Craxi kept clearly distinct his political stand from that of the Communists, in particular during Moro's kidnapping, when he was in favour of bargaining with the Red Brigades, while the Communists were staunchly against. After the poor show of the Communist party at the general elections of 1979, the new government was not supported by the Communists any more. With the pronouncement of the Christian Democrats at their national conference of 1980, excluding any future alliance with the Communists, the period of *compromesso storico* was finally over.<sup>19</sup> However, the insertion of the Communists in the political establishment and in the structure of political power, especially at the local level, did continue.

Another important development was the continuance of the budget deficit policy of the seventies, in a profoundly changed international context which did not allow the maintenance of negative real interest rates any more. Of great importance was also the so-called "divorce" between the Bank of Italy (which had previously de facto guaranteed the financing of budgetary deficits through direct or indirect money creation, if the need arose) and the Treasury. In the new institutional set-up (which dates back to 1981, but which was eventually perfected in 1993, adopting in full the European Union regulations<sup>20</sup>) this type of subordination was discontinued. As a consequence, deficit financing did not result in the rate of inflation getting out of control (in the years 1979-1990 the rate of inflation was 10.6%, down from the 16.1% of the period 1973-1979), notwithstanding budget deficits to the tune of more than 6% of GDP (in fact they were higher than in the seventies because of the cumulative effects of debt service), but the real rate of interest shot to positive levels (the short-run real interest rate was 3.5% as an average in the period 1981-90)<sup>21</sup>, making the policy of persistent deficit spending unsustainable in the long run. At the same time political corruption, which had developed in the sixties and seventies, involving more or less all parties, but in particular the Christian Democrat and the Socialist, reached its acme in the eighties. The Socialists under Craxi had developed a conception of political life according to which votes could be wooed through expenditure in party organization and propaganda, and in its

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<sup>19</sup>Cfr. Salvatore Rossi, *La politica economica italiana 1968-1998*, Bari: Laterza 1998, p. 166.

<sup>20</sup>Ibidem, p. 111.

<sup>21</sup>*Enciclopedia dell' Economia Garzanti*, Milano: Garzanti, 1992, pp. 1253-1254.

turn votes, through corruption and political influence, would result in acquisition of financial resources. Paraphrasing the title of a famous book by an Italian economist, we may synthesize this conception as "production of votes through money and production of money through votes". The model was applied to an increasing unsustainable extent, in particular both by the Socialists and Christian Democrats. The minor parties of the so-called *arco costituzionale*<sup>22</sup> were also part of the system, with a degree of connivance, and participation at the level of local administrations, by the Communists. Apparently the only ones left out in the cold were the neo-Fascists, and, in the initial phase of its activity, the Northern League, which later on, having got some levers of local power, became also embroiled in corruption episodes. In many cases, especially involving government parties, corruption money was used not only for financing the party but for personal enrichment too. Particularly blatant was in this respect the behaviour of some Socialist leaders and their co-workers. A backlash had to develop sooner or later, and eventually led to the fall of the system.

In order to understand the change of Italian public opinion, which has de facto been tolerant of political corruption for a long time, one should take into consideration that political corruption is not only a matter of distribution of political influence and wealth. It is also wasteful for what we may dub the corruption multiplier, by which the social damages of corruption are a multiple of the sum acquired through it. First of all there are the transaction costs, the secrecy, the risk premium to be paid to accomplices. Secondly, the efficacy of administrative and political action is hampered, as are the rules of competition. The thriving competitors are not the most effective in production, but the most effective in oiling politicians and bureaucrats. Thirdly, if the main objective of political and administrative action is the revenue of corruption, as to some extent seemed to be the case in Italy towards the end of the eighties, the nature of public expenditure is affected. The quality and efficacy of interventions is not given the attention it requires, moreover those interventions are privileged that produce the highest corruption revenue, independently of their merits. There were many anecdotes of public works, especially in the South, and especially in the period of high corruption of the second half of the eighties, resulting in bridges without roads, in roads leading nowhere, in unfinished hospitals, etc. Corruption money was not simply an instrument of power, but had become an end in itself. According to common opinion, towards the end of the eighties corruption had reached levels never experienced before.

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<sup>22</sup>"Constitutional arc", the set of parties that were recognizing themselves in constitutional values; the neo-Fascists, obviously, were excluded.

## **2. Crisis and reconstruction: the role of the post-Communists as a government force**

### ***2.1 The forced end of a political regime and of a consensus system.***

The fall of the Wall was not of fundamental importance in this respect, since the building up of the crisis was already ripe, even if it was probably of fundamental importance in allowing the Communists (however ex-) to acquire eventually government responsibilities.

The crisis exploded in 1992, as the determination of the Milan judiciary and the support of public opinion, which had become sick and tired of the extent of corruption, nullified the usual system of displacing the proceedings in cases of political corruption, as well as all politically sensitive proceedings, to Rome through various callous means, with the complicity of the high echelons of the judiciary, and in particular of the Supreme Court (*Corte di Cassazione*). In Rome a corrupt judiciary, colluded with political power, was taking care of stopping them, until eventually the crimes could not be prosecuted any more because of prescription.

At the same time, because of the explosion of public debt, the system of using large budget deficits for providing the means for maintaining consensus through public expenditure was not available any more, as an increasingly larger chunk of public expenditure was needed for the debt service. The crunch came in the Summer 1992, when the Lira went under attack and was eventually compelled to float, leaving the European exchange mechanism; the rate of interest on state bonds exceeded 16%, in presence of an inflation rate of about 5%<sup>23</sup>. Only the draconian financial measures taken by the Amato government (supported by the traditional Centre-Left coalition, but opposed by the Left, and in particular by the post-Communists of PDS) in September saved the day and avoided financial collapse.

Already at the beginning of the nineties it could be understood that the state could not honour in the long run the claims of its creditors and at the same time the ingrained expectations of the public. Now, the claimants were mainly of two kinds: 1. the holders of state financial debt; 2. those entitled to pension claims, according to then existing legislation. There were also some additional implicit claims, or expectations, such as the continuance of the especially favourable

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<sup>23</sup>The implicit deflator of GNP for 1992 was 4.7%. (Cf. Mario Arcelli, Stefano Micossi, "La politica economica negli anni ottanta (e nei primi anni novanta)", in *Economia Italiana*, n. 1/2, 1997, special issue on *Storia, Economia e Società in Italia 1947-1997*, p. 352) while the rate of interest on state bonds with a year maturity reached 17.79% in October 1992 (source: [http://www.bancaditalia.it/pol\\_mon\\_merc/tit\\_stato/tassi\\_int/bot\\_ann](http://www.bancaditalia.it/pol_mon_merc/tit_stato/tassi_int/bot_ann)).

treatment of specific categories of the population: surplus employment of loss-making state enterprises, lax working conditions of state employees, specific social measures (*cassa integrazione guadagni, indennità di disoccupazione speciale*) in favour of workers affected by layoffs of big firms, leading to a replacement rate of up to 80% for quite a number of years, fake invalidity pensions, widespread especially in the South. Calls were advanced for repudiating the state debt, in one form or another, proposals that obviously contributed to make more onerous the service of the debt in the short run. These proposals were not heeded, however, because of the likely consequences for the credit-worthiness of the Italian state in the subsequent period, for social peace, owing to the widespread holding of bonds by Italian families, and because they would have gone against the basic tenets of the economic constitution of contemporary industrial democracies, making of Italy a pariah among them and putting Italy's membership of the European Union at risk. The inevitable outcome of this decision was the need to create a primary budgetary surplus on the one hand and to deceive some of the expectations mentioned before, as well as to revise the rather extravagant pension rules, on the other. The formation of those rules in the previous years was prompted by trade union pressure, left-wing demagogy and search for electoral support by government parties (in particular by the Christian Democrats). At the time a rather curious viewpoint prevailed, according to which the number of jobs was in some way given. (This viewpoint seems to have been left as a distinctive heritage from the old PCI to the *Rifondazione* Communists, who were making of the reduction of the working week to 35 hours, supposed to increase employment through work-sharing, a crucial point in their economic programme. They even succeeded to force this measure as a commitment on the Prodi government in 1997, as a condition for supporting the law of the budget.) Retirement by active workers was encouraged, especially in public employment, since their jobs were supposed to be passed over to somebody else, correspondingly reducing the number of the unemployed. It was a specific instance of the fixed quantity fallacy, often held in the left-wing circles, according to which quantities (in particular the number of jobs) are fixed irrespective of price (wages, in the labour market) and of other relevant circumstances.<sup>24</sup> The so called "baby pensions" system of public

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<sup>24</sup>Such as those affecting supply of entrepreneurship. In a sense demand for labour is tantamount to supply of entrepreneurship, which by no means can be taken as given. One can be born rich, but to become an entrepreneur, instead of a rentier or an employee, is a specific choice. If conditions are made too strict for entrepreneurs, in the name of class struggle, and the position of entrepreneurs in society worsens, because "profit" is assimilated to "speculation" as a source of unclean incomes in the eyes of public opinion, and is penalized in various manners, this may

employment allowed retirement after sixteen years and six months of service only (even less for women). Retired state employees would then receive a pension for life.

At difference with private savers, who could sell their bonds and send their money abroad, pensioners or even prospective pensioners could not emigrate for getting paid better pensions elsewhere. However, they could retire, before the new intended legislation restricting the rights of would-be pensioners came into effect. Lack of resolution in implementing a realistic and long run sustainable pension reform led to a worsening of the problem of financing the pension system, since scores of workers (and especially of state employees) accelerated their retirement every time a reform of the pension system that involved a postponement of the minimum retirement age was in sight.

A first attempt by Amato (1992) to reduce prospective pension claims and increase retirement age failed to be decisive, in particular because of the stubborn defense of the privileges of state employees by the Christian Democrat Minister of labour Cristofori (of the Andreotti fraction).

A far-reaching pension reform was attempted by the Berlusconi government in 1994, but failed because of widespread opposition by trade unions,<sup>25</sup> who organized a successful general strike, and widespread opposition by political forces (the post-Communists in particular), which eventually led, with the defection of the Northern League, to the fall of the government.

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eventually turn to the disadvantage of workers, unless the state supplies the missing entrepreneurship. But experience has shown that the state on the whole is a poor entrepreneur. Another tragic instance of the fallacy of the independence of quantity of price is the belief that the supply of rented dwellings is independent of the legally imposed conditions of tenancy. This belief has led in many a country (Italy in particular) to unrealistic rent control regulations, bringing about, the rarefaction or disappearance of dwellings put to rent, as well as the degradation of rented urban spaces. This brought great suffering for the class of (especially would be) tenants, and hindrance to geographic labour mobility, with adverse consequences on productivity and employment.

<sup>25</sup>Italian Trade Unions strongly resisted proposal of reforming the pension system, and any redistributive measure aiming to reduce the privileges (such as undiminished cumulative treatments) of pensioners. Their reluctant acceptance of the Dini government pension reform was due to the insertion of discriminatory clauses (such as the maintenance of the more favourable pay-as-you-go system) for workers with 18 years seniority and more, who were making up the bulk of trade union membership.

The reform eventually approved under the Dini government, which succeeded Berlusconi's and was supported by the post-Communists, brought about a restriction of pension rights and an increase in the retirement age so as to curb the expansion of pension expenditures and the brake it constituted for the economy. It somewhat redressed the situation, but was still far away, according to experts, from what was needed, considering the state of public finances and demographic trends.

## ***2.2 The change in Italian society and in the support for the Left***

Partly the change in policy and ideology by the Communists and then by the post-Communists was the outcome, not only of past experience, but of a drastic change in Italian society. The relative importance of industrial employment, which formed traditionally the basic source of support for the parties of the Left, has gradually shrunk, while employment in the services has greatly increased. The traditional "working class", the class of manual labourers, in the name of which Marxist parties have claimed power in the past, had become a relatively unimportant minority section of Italian society. The same applies to the class of "proletarians", destitute workers with no significant wealth. Partly these changes have been the natural outcome of economic development, partly however were accelerated by the policies once vigorously advocated by the Left, and thanks to the advocacy and support of the Left (the Communist Party and Italian Trade Union movement in particular) adopted by governments and the legislature.

Indeed, some of the policies of the Left, which were implemented under the impact of the progressive weakening of Centre and Centre-Right forces, and then, in the seventies, in the framework of the *Compromesso Storico*, have been self-defeating in the long run for the political interests of their advocates. The exceedingly myopic and demagogic measures of rent control (in particular since the approval of the *equo canone*, in 1978) nearly destroyed the market for rented dwellings, contributing to the attainment of a particularly high home ownership rate (only 22,8% of families were living in a rented home by 1995).<sup>26</sup> Real estate ownership in turn does not seem to be particularly favourable as a contributing factor for being ideologically oriented to, and voting for, the Left. The measures leading to a marked increase in workers' rights, and in the cost of labour for large enterprises, in the official economy, from which small enterprises were exempt (*Statuto dei Lavoratori*, May 1970), have resulted in a reduction of the employment provided by large firms, and an increase of the relative weight of small firms and self-employment in the Italian productive structure, much above than in the other industrialized countries. Owners and

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<sup>26</sup>ISTAT, *Rapporto sull' Italia*. Bologna: Il Mulino, 1996, p. 134.

managers of small firms, as well as the self-employed, are in turn much less likely than workers and employees of big firms to hold left views and to vote for the Left. This process has also been favoured by the short-sighted defense of employment in loss-making and doomed state enterprises, at the cost of huge public subsidies, policy that has subtracted resources from the development of viable public and private enterprises and brought the whole state industrial ownership system into disrepute. The fate of the loss-making Bagnoli steelworks, where huge investments were made in order to maintain employment, only to be scrapped somewhat later, is in this respect a good case in point. The increasing labour costs in the official economy, following the wage push and normative changes of the late sixties and seventies, in the industrial sector in particular, contributed to the decline in the relative importance of industrial employment (a big reserve of votes for the Left), through both its scale and substitution effects (robotization by Fiat following the dramatic increase in labour costs in the early seventies is an emblematic instance of the latter).<sup>27</sup> The egalitarian policies of the seventies (following the *punto unico di contingenza*, according to which wage indexation was not proportional, but in absolute terms) aroused the resentment of the intermediate cadres against the egalitarian push.<sup>28</sup> All these social transformations, which were objectively accelerated by the policies favoured by the Left, made up the breeding ground for the shift of Italian society towards the Right, which in 1994 led to the first center-right majority government from the onset of the Republic,<sup>29</sup> with the participation and support of former neofascists.

Another contributing factor was the overall social impact of some of the policies pursued. The persistent large scale transfers to the South for implementing policies of by and large ineffective industrialization, which eventually had to be discontinued, and of straightforward social support

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<sup>27</sup>“In 1976 Fiat's Torino Mirafiori factory adopted the first automated system for bringing car bodies and their mechanical parts together” (From: <http://www.Fiat.com/e/default.htm>.) “In 1978 production methods were revolutionised with the introduction of Robogate, the world's first flexible robotised body assembly system in Fiat's Rivalta and Cassino factories.” (Ibid.)

<sup>28</sup>This found its expression in Turin in the *marcia dei quarantamila* (a march by Fiat cadres in protest against trade unions' activities in October 1980, a turning point in the social climate of those years).

<sup>29</sup>The centre governments of the post-war period had a left-wing component in the left-wing and populist fractions of the Christian Democrats and Social-democrat, which was lacking in the Berlusconi government. The populist components of the latter, such as in particular the Northern League, does not have by all definitions a left-wing connotation.

through transfers, at the expense of Northern taxpayers, as well as the lax attitude towards immigration and petty crime, alienated popular support in previously left-wing voting strata, to the advantage of such forces as, in the North, the Northern League and, in the South, the Neofascists. Mass illegal immigration in particular has been associated in popular opinion, as well as in statistical data, to increased criminality.<sup>30</sup> Moreover low income beneficiaries of public social expenditure were not particularly happy to share its diminished resources (due to the primary surplus needed to keep the service of the public debt under control) with an increasing wave of illegal immigrants, as by and large advocated by the Left, in the name of social solidarity. At the same time the attitudes of the Left towards immigration have progressively changed. After the signature of the Schengen protocols a new, stricter, immigration law, proposed by the PDS member and veteran Communist Interior minister Napolitano, was passed in March 1998, but this hardening was viewed as too late too little by some of the disaffected urban masses that in the past would have voted for the Left. Moreover the law was accompanied by still another mass regularization for illegal immigrants. In the immigration issue, as in other matters, the Left did gradually learn, but not fast enough to avoid not to be taken aback by otherwise foreseeable developments. The immigration law approved during the Prodi government, with the introduction of administrative detention of illegal immigrants pending expulsion, would have sounded anathema to left-wing parties, and not only left-wings ones, some years before, when the much milder Martelli law was passed (in 1990), among uproar by left-wing critics. At the same time two years only after the previous comprehensive immigration law, another one was passed, under the Amato government, in December 2000, modifying the previous one in a repressive sense.<sup>31</sup> On the whole the immigration issue is quite tricky for the Left, in Italy as elsewhere. Industrialization, public education and social expenditure alike, together with the egalitarian wage push of the

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<sup>30</sup>Cf. M. Barbagli, “Sul rapporto fra immigrazione e criminalità in Italia e negli altri paesi occidentali ” (excerpt from his book *Immigrazione e criminalità in Italia*. Bologna: Il Mulino, 1998), <http://www.comune.torino.it/cultura/intercultura/12/12c1-5.html>

<sup>31</sup>An overall review of recent Italian immigration policies can be found in Harlan Koff, “Immigrazione o integrazione? Dibattito pubblico e sviluppi concreti”, in Mario Caciagli e Alan Zuckerman (eds.), *Politica in Italia: I fatti dell’ anno e le interpretazioni*. Edizione 2001, Bologna: Il Mulino, 2001, pp. 185-203.

seventies, succeeded in markedly reducing the inequalities of postwar Italy.<sup>32</sup> Immigration provides a supply of relatively unskilled labour force endowed on the whole with lower levels of human capital (considering also the specificity of the latter for the social and economic environment). Thus immigration has the potential to increase the dichotomization of the labour force (aside from the persisting dichotomy between official and underground workers), and the creation of a structure of inequality based on stratification along ethnic lines. The intrinsic inequality of society is bound to increase as long as immigration is not restricted, no matter what are the redistributive policies pursued, as the amount of resources which could be commanded for redistribution is limited and the supply of foreigners from the poorer countries of the world is practically unlimited: no feasible amount of redistribution can create a relatively equal multiethnic country if the worse off from abroad are free to immigrate, or if controls are kept lax.

### ***2.3 The post-Communists' role in government. Financial stabilization and institutional change***

Before leaving power to the victorious Right in 2001, the governments that ruled with Communist support, but first of all the Prodi government, which was the direct outcome of the electoral victory of the Left in 1996, were able to set a few landmarks that could not be easily overturned. With the Bassanini<sup>33</sup> laws of 1997 the rules presiding the functioning of Italian bureaucracy were made more reasonable, and its discipline was strengthened. Secondly, a number of privatizations were made, notwithstanding the brakes put by Rifondazione as well as by the Right opposition, reducing substantially the extent of the state sector, and in particular of loss making state industry and contributing to redressing state finances. But most of all the entry from the start into the European Monetary Union presents Italy with the straitjacket of a budget constraint which puts a limit, so long it holds, to the resources available for the renewed pursuit of populist and kleptocratic policies, since it makes unavailable the resources obtainable in disguised form through excessive state deficits and inflation.<sup>34</sup> The historical merit of the governments supported

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<sup>32</sup>Cf. Andrea Brandolini, "The distribution of personal income in postwar Italy: source description, data quality, and the time pattern of income inequality", *Temi di Discussione* no. 350, 1999. Rome: Bank of Italy.

<sup>33</sup>Himself a Pds minister.

<sup>34</sup>The present Berlusconi government, which on the whole has a Eurosceptic attitude, contrary to the governments of the Left that were unreservedly pro-European, appears to resent gravely this limit and tries to get away with it, especially through forms of "creative accounting" engineered

by the post-Communists has been to bring about this development under very difficult conditions, making almost impossible for the future the return to the inflationary populist policies of the seventies that the Communists themselves had, at the time, contributed to form and support.

#### ***2.4 The neo-Liberal policies of the post-Communists: necessity or choice?***

It is not too easy to apportion the responsibilities as well as the merits for the policies pursued by the governments sustained by the main post-Communist party, namely Ciampi (1993-1994), Dini (1995-96), Prodi (1996-98), D' Alema (1998-2000), Amato (2000-2001), even if it is obvious that the policies of the governments Prodi and D' Alema and Amato can be more definitely ascribed to the post-Communists, since the PDS (later DS) not only was the main supporting party but also had the strongest delegation in government. On the whole it is striking that by no means can the policies of the governments supported by the post-Communists be identified as the traditional policies of the Left; rather they correspond to a great extent to the policies which in many countries are ascribed to the liberal or neo-capitalist Right. Instead to the Keynesian expansion of public expenditure and deficit spending, we have here both containment of public expenditure and of the budget deficit.<sup>35</sup> Instead of an expansion of social expenditure, a curbing of social expenditure, while some monitoring of its efficiency was attempted. Instead of nationalization we had large scale privatization.<sup>36</sup> Instead of dirigism and limitation of private initiative, we had

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by Finance Minister Tremonti, such as, for instance, such wasteful measures as the sale of public building, immediately leasing them from the new owners afterwards.

<sup>35</sup>However, the successful action of PDS Vincenzo Visco (who served as Minister of Finances, with Prodi and D' Alema) in fighting tax evasion can be seen as a kind of left-wing policy as well as good administration. Moreover the great reduction of the real interest rate, following the curbing of the size of the debt relatively to National Income first, and the abolition of the exchange risk following the participation in the EMU later, has greatly reduced the share of financial rents in disposable national income, much more than the taxation on financial rents originally proposed by *Rifondazione* Communists would have done, and this can be certainly seen as a welcome progressive by-product of overall macroeconomic policies.

<sup>36</sup>An important step towards the privatization of public utilities was taken through the approval of the rules for the establishment of the authorities controlling privatized public utilities, notwithstanding the hostility of the Right, which wanted to hamper the privatizations of the Left. This paved the way to the most financially successful privatization of the Prodi government, that of Italian Telecom. Other notable privatization engineered by post-Communist supported

liberalization and enhancement of competition.<sup>37</sup> Instead of increasing workers' protection in the labour market, measures of labour market liberalization were undertaken.<sup>38</sup> To this it must be added some liberalization of the market for rented dwellings, attenuating the regime of rent control (December 1998). Finally we may mention the streamlining of the bureaucracy and some reduction in the privileges of state employees following the Bassanini laws mentioned above. In part these policies, as we have seen, were compelled by the constraints which the Left inherited, in part were the result of the choice to join the Monetary Union with the first group of countries (itself clearly not a traditional left-wing decision, taking into account the dominant free-market ideology of the Union).<sup>39</sup>

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governments have been those of state-owned banks, and of part of ENI. However the desire to go further was hindered by the opposition of the *Rifondazione* Communists towards the majority holding of ENI and the privatization of ENEL (the state monopoly for electricity production and distribution), until the exit of *Rifondazione* from the majority made the privatization of a good chunk of ENEL possible (34.5% in November 1999).

<sup>37</sup>The liberalization of retail trade, reducing the constraints to business activity to the detriment of to the vested interests of incumbents, was brought about by a decree proposed by the Pds minister responsible for trade and industry Bersani in March 1998. It is interesting to note that the measures towards market liberalization and enhancement of competition were opposed by the Right in the defence of specific interests, such as those of shopkeepers.

<sup>38</sup>All this did not go without hefty contrasts. For instance at the February 1997 National Pds Conference D' Alema's position, favourable to increasing flexibility and mobility in the labour market, was clashing with Cofferati's opposite views (Luciano Bardi and Martin Rhodes (eds.), *Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 98*, Bologna: Il Mulino, 1998, pp. 10, 91). Similar contrasts between the Pds leadership and the Party's trade-unionist wing occurred later in the same year (*ibidem*, p. 19), and on other themes, such, in particular that of the reduction and rationalization of welfare expenditures (*ibidem*, pp. 90-91). It goes without saying that positions similar to those of Pds' internal opposition were held by the *Rifondazione* Communists. All this was of particular relevance in a year where crucial economic decisions were taken, leading to the decision of Italy's admission in the EMU the following year.

<sup>39</sup> Some elements of dirigism, albeit under the garb of decentralization and concertation, in the name of the subsidiarity principle, have resurfaced in the so-called *programmazione negoziata*, leading to institutional arrangements akin to the European Employment Pacts, which in practice have performed as a vehicle for conveying investment subsidies (partly of European origin), up to

But this is only a partial explanation. In reality the mainstream post-Communists, albeit not all of them, have learned a good deal from the past and have realized that some traditional left-wing policies were not really in the interest, at least in a long-run perspective, even of the classes which the old-time Communists claimed to represent. Moreover, as we have seen, the social constituency of the party had changed.<sup>40</sup> The process of cultural maturation, in particular the maturation of economic experience and the understanding of economic constraints, has borne its fruits. This can be seen most clearly if we look at the economists of the main post-Communist Party who have nothing in common with the Marxist ideologically oriented economic experts that the PCI had in the past. On the whole in Italy there has been a great evolution, marked by the effort towards bridging the gap with the level of economic knowledge of the Anglo-Saxon world. For many years a number of Italian banks would use some small part of their profits for setting up scholarships, sending young Italian economists to specialize in the best American and English universities. A number of offsprings of old time prominent Communist leaders (such as Barca, Cossutta or Reichlin) went to specialize in the best American or Western European graduate schools, while a number of left-wing oriented economists trained in American or British Universities and with some international research experience have become involved with the Italian post-Communists. Indeed, it may be disputed whether, as a consequence of their changed attitudes, the post-Communists (the *Rifondazione* splinter party and the internal left wing opposition excepted) may be still considered a part of the traditional Left any more, or rather a progressive liberal centre-left party, in the same mould, say, as Tony Blair's Labour.

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80% of the actual investment, to the South and the relatively more depressed areas of the North. But its actual practical relevance has been limited. For a synthetic review see Vincent Della Sala, "Il «nuovo sud» nella nuova Europa: il caso di Sviluppo Italia", in: Mark Gilbert and Francesco Pasquino (eds.), *Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 2000*, Bologna: Il Mulino, 2000, pp. 223-244.

<sup>40</sup> For the changes in the attitudes of the rank and file party members see Rinaldo Vignati, "Il leader e il partito. Il Pds dopo il II congresso", in: Luciano Bardi and Martin Rhodes (eds.), *Politica in Italia, cit.*, pp. 87-108. Not only the constituency of the main post-Communist party did change, but also that of *Rifondazione Comunista*. The latter, "unlike the old PCI, appears as a party of state employees, with guaranteed employment, rather than of workers" (Oreste Massari and Simon Parker, "Le due sinistre tra rotture e ricomposizioni", in: David Hine and Salvatore Vassallo (eds.), *Politica in Italia: I fatti dell' anno e le interpretazioni. Edizione 99*, Bologna: Il Mulino, 1999, p. 68).

Then, one may ask further, what remains of the old Socialist ideology? Is the latter completely lost?

The answer should not be necessarily on the affirmative, if one refers, not to the Socialism of the means (such as state industry, planning, inflationary state expenditures) but to the Socialism of the aims, where obviously the main aim which distinguishes the Socialists from the Liberals may be seen as the egalitarian one. While carrying on the removal of the pathological features left over by the previous system (unsustainable levels of state expenditures and of state indebtedness, a chaotic and inefficient system of social security, the inefficiency of public administration and the privileges of state employees) the Socialist viewpoint could guide the reconstruction of a viable redistributive system and an equitable social security system, which could be sustainable in the long-run, to the advantage of the worse off. In a world in which the faith in the power of direct management and planning by the state has been, perhaps irretrievably, lost, it is in the management of the structure and the level of state revenues and expenditures, as well as in the setting up of the overall legal framework of the market, that the Socialist egalitarian aims of government action could best be retrieved. In this perspective the footsteps of those coming from the Communist and Socialist traditions and those of egalitarian minded liberals (as well as of solidaristic minded Catholics) could eventually meet in the same path (perhaps under the shadow of the olive tree). However the construction of a progressive party of the Centre-Left (the *Ulivo*) has been hampered by the divisiveness of the quarrelsome Centre-Left parties, each attached to its autonomy and specific historical background, and the assertiveness of the more important and less important political leaders, attached to the preservation of their autonomous political space. At the same time, inside the post-Communist Left the old damaging quibbles between the realism of those with social-democratic or social-liberal inclinations and the more radical instances of the populists and of the wishful thinkers are enhanced, since the electoral victory of the Right in 2001, by not having to exert the restraint and compromise required by the responsibility of ruling the country. But without such restraint and compromise the opposition may leave Berlusconi and the right-wing parties, which in the overwhelming Berlusconi's control of the means of communication find the cohesion and the constraint that lacks to the Left, in power for the indefinite future.